THE GREEK STATE AND THE INTERNATIONAL FINANCIAL COMMUNITY, 1922-1932: DEMYSTIFYING THE 'FOREIGN FACTOR'

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Thesis submitted for the degree of Doctor of Philosophy at
the London School of Economics and Political Science

In memory of my mother, ***Elly Eleni***

"Η μεταπελευθερωτική ελληνική ιστορία είναι ουσιαστικά ιστορία των ξένων επεμβάσεων"

"The post independence history of Greece is fundamentally
a history of foreign interventions"

K. Simopoulos
Ξενοκρατία, Μισελληνισμός και Υποτέλεια
Foreign imposition, Mishellinism and Subjugation
(Athens, 1990)

The thesis aspires to challenge the dogma that all of Greece's misfortunes and problems are due to: 'The Foreign Factor'.

Errata

1. On page 195 reference 21 the number 10,000,000 should read 100,000,000 and the number 5,000,000 should be 5,000,000,000.
2. The last paragraph of page 284 should be placed on page 285 under the title: b. The Advance and Temporary Loan Furnished by The Foundation Co.
3. Page 286 line 17 should read: stumbling block was that the British Treasury had either just enforced or was about to impose an embargo that precluded the...
4. Page 364, reference 9 is incomplete. Add the sentence: For the fact that according to certain sources, the net population increase after the refugee influx was only 13%, see reference 8 on page 94.

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Abstract

The Greek State and the International Financial Community,
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In the decade between the Asia Minor debacle of 1922 and the foreign loan default of 1932, the Greek State formed tight links with the international capital market.

This thesis examines the foreign loans raised. It investigates: the negotiations involved; the institutional framework through which these loans were provided; how they were used; and how they enhanced foreign tutelage over Greece.

Book I explores the loans issued under the auspices of the Legue of Nations. It analyses how the League tackled the Refugee problem and uncovers how the stabilization plan was devised. It demonstrates the manner in which the League, the Bank of England and the British Treasury co-operated as regards Greece; and how these institutions withheld foreign finance (e.g. via embargoes) to force Greece to attain political stability and curb military expenditure. Book I also focuses on the divergent economic philosophy of the Greek authorities vis-a-vis the League and the Bank of England. Moreover, it brings to the surface the underlying antagonism between the International Financial Commission and the League of Nations. In addition, the parameters, other than the world economic crisis, that contributed to the demise of free convertibility in Greece are delineated. Finally, the stabilization experiment of the twenties is placed in a comparative perspective.

Book II discusses foreign capital inflow outside 'formal' international control. This category of loans financed the development of infrastructure by foreign firms through 'agency' contracts. The terms and how the projects were carried out is investigated. The momentum attained in public works prior to stabilization and why it was not maintained during the gold exchange standard system is delineated. The growing dependence of the State on Hambros and the intimate relationship this merchant bank enjoyed with Greece's supervisors and the National Bank of Greece is brought into relief.

Finally, an important issue analysed throughout the thesis is the internal weakness of the Greek state.

Acknowledgements

Foremost, I thank my supervisor Dr. Colin M. Lewis for his constant support and his meticulous comments on the various drafts produced; for wisely guiding me without constricting me and for helping me to shape certain central points of the thesis. The staff of the Archives consulted (in particular N. Melios, N. Pandelakis, Y. Hadjis, V. Tselikas and Dr. H. Gillett) kindly assisted me to unearth new material. The economic history workshop of the National Bank of Greece Historical Archive gave me the opportunity to 'test' my ideas in public while the writing was still at its early stages. The comments of Professor G. Dertilis were perceptive and some turned my research away from erroneous premises. Finally, I am indebted to Dr. S. Pesmazoglou for discussing what appeared to be intractable methodological questions.

MAP OF GREECE*

*The geographical sites are depicted by approximation

Abbreviations

Archival Sources

B.E./C.B.P.:	The Bank of England' Archive/ Central Bank Papers
B.G./T.A.:	The Bank of Greece/Tsouderos Archive
B.M./V.A.:	The Benaki Museum/Venizelos Archive
F.O./371:	The British Foreign Office/371 series at the Public Records Office
G.L.H.A./D.A.:	The Greek Literary and History Archive/Diomedes Archive
L.N./S.:	The League of Nations/Archive Papers of Sir Arthur Salter
M.F.A./H.A.:	The Greek Ministry of Foreign Affairs/Historical Archive
N.B.G./D.A.:	The National Bank of Greece/Diomedes Archive
N.B.G./H.A.:	The National Bank of Greece/Historical Archive
U.S.A./NAT:	The U.S.A. Department of State Records/National Archives

Official Gazettes

G.G.:	Official Gazette of the Greek government
G.P.D.:	Gazette of Parliamentary Discussions

Journals

E.H.R.:	Economic History Review
J.E.E.H.:	Journal of European Economic History
R.I.S.:	Review of International Studies

Institutions

F.C.:	The Financial Committee of the League of Nations
I.F.C.:	The International Financial Commission
N.B.G.:	The National Bank of Greece
R.S.C.:	The Refugee Settlement Commission
R.I.I.A.:	Royal Institute of International Affairs

GENERAL INTRODUCTION

Chapter 1

The Object of Inquiry, Hypotheses and Methodology

1.1. The Object of Inquiry

This thesis analyses the relationship of the Greek state with the international capital market in the decade between the Asia Minor debacle of 1922 and the default of 1932.[1] It investigates the origins and impact of foreign portfolio investment*; the negotiations surrounding foreign loans and the purposes for which they were raised; the projects assigned to foreign contractors**; the resulting foreign tutelage over economic policy and in particular the influence of Britain; the rise and collapse of the interwar gold standard in Greece. The analysis will consider the expectations of the Greek state and foreign creditors and will demonstrate that the flow of foreign capital was plagued with a number of problems.

*The thesis examines the loans raised by the government and not public bodies in general. The latter category was insignificant, amounting to a mere £2,650,000.

**Foreign direct investments in the public sector are not examined in the thesis. Such investments were few. The one large F.D.I. was an Anglo-Hellenic joint venture for the electrification of Athens and it has been covered in detail in the bibliography. (See Book II, Introduction).

1.2. Methodology

1.2.1. The thesis in relation to current trends in the international literature on capital movements

The thesis was initially conceived within the standard liberal framework of international financial relations. But, once the material was collected and the writing began, it became increasingly evident that the nature of the quantitative data and the complexities of the interwar period would not allow an analysis based exclusively on capital movements. As a result, in addition to outlining the quantity, origins, distribution, and functions of foreign capital flows, the thesis has explored the politics of international finance and embraces the theories of public policy analysis. The research shows that the Greek experience complies with the following five arguments made within the International Political Economy literature.[2]

First, that "No process, policy, or event is unquestionably accepted as either purely economic or political or, for that matter, as purely international or domestic."[3] As seen in this thesis, international finance hinged on political considerations. Embargoes and the threat of more embargoes were used for political and strategic considerations for a large part of the twenties. In addition, the international capital market and foreign actors triggered domestic crises in Greece. It was also the case that internal political factors had negative repercussions regarding the flow, composition and absorption of foreign finance.[4]

Second, the balance of power between states has not been "merely a relationship between state-machineries, because the internal actors within any given state regularly acted beyond their own boundaries either directly or via alliances with actors elsewhere."[5] As seen in the thesis, the National Bank of Greece had tighter links, with and a fuller knowledge of, the international financial community than the state Treasury. As a result, the Bank often in conjunction with Hambros took initiatives without consulting the government.

Third, dependence is primarily a function of the lack of internal strength and coherence of the state. Or put otherwise, the state is externally weak because it is internally weak -external weakness being a reflection of internal weakness. The Greek state lacked the power, stability and unity to conceive and implement a consistent strategy regarding foreign capital inflows. The disarticulate nature of the state is also manifested in the unwillingness of the political leadership to take advantage of sound advise offered by a small yet 'enlightened' cadre of technocrats, based ? mainly at the ministry of communications.

Fourth, the bargaining position of the state is weak when new overseas investments are being negotiated, particularly if the area in which investment is to be undertaken is one of high priority for the government and the national private and public savings rate is low. All the above factors were present in the Greek case.[6]

Fifth, the cultural variable plays an important role in explaining international economic relations.[7] Indeed, the thesis sheds light on the disjuncture in logic between Greek officials and foreign bankers and entrepreneurs. There was a mismatch in terms of economic philosophy which led to an ideological clash on a number of issues such as: the optimum size and composition of state expenditures; the purpose, nature and expectations of currency stabilization; the role of investments in public utilities; the relationship of government and business.

Seen from another angle the thesis is a case study in international business history so far as it offers a micro-study of the behaviour of one firm, Hambros. As such it contributes to the growing body of research devoted to the activities of merchant banks abroad.[8] In addition, the thesis confirms that the attitude of multinational firms towards Greece was typical for a peripheral country which was considered a potentially high risk. The combination of political instability and the small size of the Greek market made it necessary for Hambros and the multinational contractors to cooperate with locals.[9]

Thus, the dissertation is not of one single perspective. It mingles the empiricist British historical tradition with the international political economy perspective and new research in the history of merchant banks and multinationals. Before moving on let it be noted here, that during the 1980's revisionist work on the history of international finance has downplayed the contribution of foreign capital to the pre 20th century economic development of the U.S.A., Western Europe, Russia, Austria, Spain, Japan and Latin America.[10] My analysis has taken into consideration the arguments of the 'revisionists'. However, because a comprehensive study of the role of foreign capital in interwar Greece had never been attempted prior to the writing of this thesis, every effort has been made neither to overestimate nor to underestimate the power of foreign finance.

1.2.2. Historiography and the thesis

Given the Greek fascination about the interplay between money and power and the ongoing debate about the role of the 'foreign factor' it is surprising that up to now there has been no serious or comprehensive analysis of the history of foreign finance and control. In the historiography of the interwar period two simplistic and antithetical arguments have been stated. The newer downplays the importance of foreign capital. Namely, it contends that the contribution of overseas capital to Greek economic development was negligible because direct investments were limited and the inflow of loan capital was counterbalanced by an outflow for servicing the foreign debt.[12] Thus, by concentrating solely on the 'aggregate quantitative dimensions' of financial flows this approach overlooks the significance of foreign capital in certain key areas of the economy (e.g. infrastructure development) and the institutional modernization of the public sector.

On the other hand, the older Marxist literature, and the Greek dependency 'school' of the seventies -which drew its analysis from the work Gunder Frank- attribute Greece's socio-economic backwardness solely to the 'foreign factor'.[13] This approach suffers from two basic handicaps. It fails to analyse the 'foreign factor' and does not examine the endogenous parameters responsible for the dependent formation of Greece within the context of interwar Europe.[14] This thesis describes the foreign factor and demystifies the debate about it. The existing bibliography has not documented in detail the origins and functions of foreign finance. Neither has it explored the intricate interrelationship between the national and international capital markets nor fully elaborated the nexus of interests involving foreign firms, international bodies, the Greek state and other domestic actors. This dissertation will correct these shortcomings. The pattern of foreign capital flows is researched in depth. The inner conflicts between the two basic agents of foreign control: the League of Nations and the International Financial Commission and the alliances which rival foreign business interests made with antagonistic domestic economic interests are revealed. The internal blockages (for example the cultural variable) which impeded the smooth flow of foreign funds and their maximum utilization are exposed. This work redresses the imbalance in the international literature of the interwar world economy. Existing scholarship, tends to overemphasize the significance of the big events (e.g. the Wall street crash of 1929 and the international crisis of 1931). These events do not tell the whole story. If we assume that international events are everything our perception of dependence is flawed. A main contribution of the thesis is that it exposes the fact that even if the big disrupting international events did not occur Greece would not have been in a position to draw substantially larger foreign capital flows. Moreover, it should be underlined that Greek and foreign institutions operated with the information at their disposal. If we employ the benefit of hindsight and do not consider the nature of that information and these expectations, we fail to understand the nature of Greek dependence.

In sum, this dissertation attempts to offer a novel interpretation of foreign capital inflow. The assumption made is that the dynamics of external finance and tutelage as it was played out in the Greek context was a versatile and complex process with politico-economic characteristics and repercussions. The analysis eliminates the following four prevailing and persistent myths that have been cultivated in Greece regarding foreign dependence:

i) High rates of interest made industrial countries eager to invest in Greece.[15] This was simply not true. On the contrary, the Greek government throughout the decade under study had difficulties raising capital inspite its willingness to accept 'onerous' terms. It should be remarked that the International Financial Commission (which had been established back in 1898) and Greece's other supervisors disapproved of a heavy foreign borrowing policy.

ii) Greece paid a high price for foreign portfolio investment. However, in view of the prolonged default, the long-term gains for the creditors were more fictional than real.

iii) It has been argued that the Greek state was was externally weak whereas internally it was a strong institution. We do not accept this dichotomy. As mentioned above the state suffered from internal weaknesses although it was relatively large and dominant (an independent bourgeoisie class had never been formed as in the west)[16].

iv) It has been asserted that the state was a passive pawn in the hands of the 'foreign factor'. However, although the state was weak the evidence at hand does not support such an assertion! Throughout the text these and other distortions are exposed.

In terms of layout the thesis is separated in two 'Books' which are relatively self-contained. Book I explores why and how Greece's official supervisors -the League of Nations, the International Financial Commission, the Bank of England and the British Treasury- 'forced' Greece to stabilize. The reasons for the delay in stabilization are scrutinized. The conflicts of interest among the domestic and foreign actors are underscored. The First Refugee Loan raised under the auspices of the League of Nations and the application of the League stabilization plan occupy central stage. Book I is a preamble to Book II in that it provides the institutional and policy background against which foreign flows for 'productive investments' occurred. The centerpiece to Book II is how the international capital markets reacted -or more pointedly failed to react- to stabilization. Seen from another perspective, it concentrates on the interplay of market forces regarding foreign portfolio investment which materialized outside the framework of 'formal' international control. The loans raised were almost exclusively for infrastructure building. Thus, the protagonists are the men of business: the bankers and the contractors.

How are the two 'Books' related? The common threads running throughout the thesis are the growing presence of Hambros in Greece, the antagonisms amongst the players involved in the process of foreign finance, and the 'endogenous' parameters that made it difficult for Greece to apply 'Western models' and maximize its access to the international capital market. Thus, it is that the two Books form a comprehensive whole. Moreover, it should be noted that if the themes pertaining to Book I only had been explored, it would have created the impression that the game of foreign finance was dictated exclusively by foreign supervision. This was far from the case. If on the contrary only Book II had been written the full extent of the tight links between foreign control and the flow of capital would have been lost. The sources used in the thesis are discussed separately in the introductions to each book.

1.3. Dramatis Personae

Chart 1 below depicts three sets of international and domestic actors involved in the story of foreign finance and control. On the international scene there were: First, the private business interests- the individual financiers and contractors. Most were familiar players in the game of international banking, namely Hambros, Seligman, The National City Bank, Speyers & Co., Kreuger & Toll, The Foundation Co., and Ulen & Co. Secondly, the British supervisors, the Bank of England and the British Treasury. Finally, there were the League of Nations and the International Financial Commission (I.F.C.). These were the formal supervisors of Greece. The League and the I.F.C. were able to determine the extent to which the state would be allowed to tap the international capital market.

Chart 1

The Actors

I. In the International Terrain
Private business interests: Hambros Bank, continental bankers unrelated to Hambros, continental bankers affiliated with Hambros, American bankers affiliated with Hambros, and multinational contracting firms. **International supervisors:** The International Financial Commission, The League of Nations Financial Committee, Refugee Settlement Commission. **British supervisors:** The Bank of England and the Treasury.
II. In Greece
The decision makers: The Prime Minister and the ministers of Foreign Affairs, Communications, and Finance. **Banking intermediaries:** The National Bank of Greece; the Bank of Athens; the Bank of Greece. **Local pressure groups demanding fair treatment for Greece:** The National Assembly; the bureaucrats at the ministry of communications

Two banks played a leading role in the foreign financing of Greece: Hambros and the National Bank of Greece. This was no accident. The National Bank of Greece was the Greek state's 'intermediary' with the international capital market for all public flotations. Greece's foreign creditors and supervisors negotiated with the Bank because it was strong and enjoyed a remarkable degree of autonomy.[17]

For their part, Hambros, had a longstanding financial interest in Greece ever since acting as the personal banker of King George in 1864. Hambros participated in most Greek foreign loan flotations and in 1887 it set up with French interests the Societe de Regie which undertook the collection of the revenues of the state monopolies.[18] In addition, during the period studied the Hambros family had close connections with the Bank of England and Montagu Norman. Charles Hambro was a member of the Court of the Bank of England (1928-1963), and served as an executive director (1931-1933).[19]

The international supervisors, the I.F.C. and the Financial Committee of the League of Nations, were supranational only in name. (For a description of the creation and the functions of the I.F.C. see the introduction to Book I). As will be shown, the policy of the I.F.C. was basically dictated by the British Treasury. Evidence also confirms that the Bank of England had a strong influence on the Financial Committee of the League. The conflict of interest between these two organs of control reflected in many ways clashes between the British Treasury and the Bank of England. Although these two institutions cooperated closely, their primary concerns in foreign economic affairs were not identical. The former was interested in ensuring that Greece would settle its war debt, fulfill its financial obligations towards the bondholders of loans supervised by the I.F.C. and to protect citizens of Britain, Italy and France from 'high-handed' acts of the Greek government, such as the land expropriation scheme and the forced loans of 1922 and 1926. In contrast, the League was called upon to play a wider role. Apart from undertaking the task of settling the refugees, it kept a strict eye over military expenditure and masterminded the stabilization of the drachma within the framework of the gold exchange standard system. Interesting conflict emerged. For example, the large reserves that the I.F.C. held abroad and the manner in which it administered government revenues under its supervision were viewed by the League as obstructing efforts to create a modern institutional framework for the Greek financial system. This conflict between the two agencies of control has been overlooked in the existing literature, possibly for the reason that they were both dominated by the British.

Three final comments regarding the actors. First, it certainly is the case that at the time both in Greece and in the international setting, personalities molded institutions and not vice versa. In this context, Montagu Norman, Sir Otto Niemeyer, Alexandros Diomedes stand out. Second, the 'policy' of the Greek state towards the inflow of foreign capital was in the last analysis determined by politicians, not by the state bureaucrats nor domestic bankers (e.g. the N.B.G. or the Bank of Greece). Third, it was by a by a twist of irony that Hambros a banker who had become identified with the monarchy was to reach the peak of its power in Greece during the twenties when Greece was a Republic!

References

1. The year 1922 marks Greece's entrance into the interwar period for the reason that it was in 1922 and not 1918 that her war activities stopped. This was so because of the 1919-1922 Asia Minor military campaign she carried out- and for which she enjoyed the blessings of the allies until late 1920. For a detailed and comprehensive account of this military episode see: G.Hristopoulos (ed.), Ιστορία του Ελληνικού Εθνους, Νεώτερος Ελληνισμός από το 1913-1940 (History of the Greek Nation), (Athens, 1978), Vol.IE, pp.97-247.

2. For a detailed account of the mosaic of approaches that have developed within the International political Economy Tradition - School of Thought see: S Strange, (ed.) Paths to International Political Economy (London, 1984), S.Gill and D.Law, The Global Political Economy - Perspectives, Problems and Policies, (New York, 1988).

3. R.Tooze, "Perspectives and Theory: a Consumers' Guide" in Strange, *opcit.*, pp.7-8.

4. Recent research on the history of international finance in the interwar period demonstrates the dissemination of ideas central to the international political economy tradition. Eichengreen in his introduction to a volume of 'technical' studies on the topic notes that "the structure and operation of the interwar system -both the nature of its rules and the ways discretion was utilized- hinged on political as much as economic consecrations". Source: B.Eichengreen, Elusive Stability- Essays in the History of International Finance, 1919-1939, (Cambridge, 1990), pp.7-8.

5. I.Wallerstein, Historical Capitalism, London, fourth impression, 1989, p.60.

6. A. Stepan, The State and Society, (Princeton, 1978), pp.237-249.

7. For the importance of the cultural variable see: I.B.Neuman and J.M.Walsh, "The Other in European self-definition: an addendum to the literature on international society", *R.I.S.*, Vol.17, Number 4, October 1991.

8. Since the late 1980 's the activities of individual merchant banks in foreign countries has started to interest scholars. One example of such micro-study is: K.Burk, "A Merchant Bank at War: The House of Morgan 1914-18" in (ed.) P.L.Cotrell and D.E. Moggridge, Money and Power, (New York, 1988), pp.155-172.

9. M.Wilkins, "Modern European Economic History and the Multinationals", *J.E.E.H.*, Vol. 6, Number 3, winter 1977, pp.575-595.

10. For revisionary work on the past contribution of foreign finance to economic development, see: D.C.M. Platt, Foreign Finance in Continental Europe and the U.S.A. 1815-1870 quantities, origins, functions and distribution, (London, 1984) and D.C.M. Platt,(ed. and contr.), Business imperialism, 1840-1930: an inquiry based on British experience in Latin America, (Oxford,1977).

11. The ongoing debate on the role of the foreign factor and the clash between Greek identity and the culture of the West was rekindled in 1990, the 10th anniversary of Greece's entrance in the E.E.C. Representative works on the theme of Greece's relations with the west are: K.Simopoulos, Ξενοκρατία Μισσελληνισμός και Υποτέλεια (Foreign Imposition, Misselinism and subjugation), (Athens, 1990). Also, D.Dimitrakos, "Ενα Ψευτοδίλλημα: Η Δύση και η πολιτιστική ταυτότητα της Ελλάδας" (A Pseudodilemma: The West and the cultural identity of Greece), *Eurobalkans*, Issue 2-3, November 1991 (Athens).

12. According to one source the inflow of foreign loan capital during 1922-1932 was 900 gold francs whereas the service of the foreign debt was approximately 1000 million gold francs. See: A. Angelopoulos, "Αι Δημοσιονομικαί Συνέπειαι του Δανεισμού της Ελλάδος" (The Fiscal Consequences of Greece's Foreign Borrowing), *Ελληνική Επιθεώρησις Κοινωνικής και Πολιτικής Οικονομίας*, Athens 1934, p.191. (See Appendix I, Table 1 where in another source estimates the inflow and annual service (of public and private loans) on a drachma basis. The gap presented is in this instance 35%. The most notable representative of this newer 'quantitative' tradition is: A.F.Freris, The Greek Economy in the Twentieth Century, (London, 1986).

13. A representative piece of the Marxist literature is: G.Samaras, Κράτος και Κεφάλαιο στην Ελλάδα (State and Capital in Greece), (Athens, 4th edition, 1982). For a critical discussion of the Greek dependency school see: P.Pizanias, "'Κέντρο και Περιφέρεια': Θεωρία και Ιστορία" ('Capitalist Center and Periphery': Theory and History), *Μνημών*, Vol.11, 1987, pp.255-286. The most recent work of the dependency tradition displays with the use of econometric techniques that the country has been highly dependent on the fluctuations of the world economy. Namely, it argues that "The dependence intensity factor makes the internal development factors play a secondary role with international developments playing the primary role in the development process. Source: P.E.Petrakis and H.Panorios, "Economic Fluctuations in Greece: 1844-1913", *J.E.E.H.*, Vol.21, Number 1, spring 1992, pp.31-46.

14. One of the few studies which investigates the endogenous factors which account for dependency is: S.Pesmazoglou, "Technical and Educational Assistance to Greece: A case study of certain Postwar Realities and Mythologies", Modern Greek Studies Yearbook, University of Minnesota, Vol.5, 1989, (offprint).

15. In Greece the discount rate for the period ranged from 6% to 12%, whereas for example in Britain it was 2-6,6%. These figures are for the years 1920-1940. Source: History of the Greek Nation, Vol.IE, p.336.

16. For an analysis of the weakness of the Greek state see: Introduction to Book II.

17. The deposits of the N.B.G. accounted for 33% of the total deposits of commercial banks in 1928 and 58% in 1938. Source: E.K.Stassinopoulos, Η Ιστορία της Εθνικής Τραπέζης της Ελλάδος 1841-1966. (The History of the National Bank of Greece 1841-1966), (Athens, 1968), p.136. For the importance of the N.B.G. and the fact that it (owned) had 40% of all banking assets see: G.Haritakis, (ed.), Οικονομική Επετηρίς της Ελλάδος 1932, (Economic Yearbook of Greece for 1932), (Athens, 1933), pp.549-585.

18. This company was set up by Hambros, The Comptoir d'Escompte de Paris and the other bankers that provided the 135,000,000 gold franc loan in 1887. After the I.F.C. was established it broadened its functions and became in charge of collecting all of the revenues assigned to the public debt of Greece. See: D.Stephanides, Η Εισροή Ξένων Κεφαλαίων και αι Οικονομικαί και Πολιτικαί Συνέπειαι, (Foreign capital inflow and its economic and political consequences), (Salonika, 1930), pp.181,197. For the continuing involvement of Hambros in this concern, see: B.E./C.B.P. 326, Vol.3: document titled: Greek Refugee Settlement Commission Notes on a Meeting held on 13th February 1926.

19. R.J.Truptil, British Banks and the London Money Market, (London, 1936), p.39. Also, it is noteworthy that in the correspondence in the archives Sir Eric addresses Norman as 'Dear Monty'.

Chapter 2

The Political Economy of Interwar Greece

2.1. The Economic and Political Environment

The available statistical data for the interwar economy are at times inaccurate and in large measure discontinuous.[1] Caution has to be exercised when interpreting the material. It is not therefore possible to present a quantitatively precise picture of the economic situation as it evolved during the period of study. From the pieces of the scattered -and not often incompatible data a blurred picture appears. In the twenties, the rate of economic growth was low both in absolute terms and compared to the preceding and following decades.(Table 1) 1926 was a year of negative growth and real G.N.P. fell "considerably during 1929 and 1931".[2] Nevertheless, the impact of the world crisis on the economic activity of the country was less acute than in the industrialised countries.[3] (See Tables 2 and 3)

Table 1

Average Annual Growth Rate of the G.N.P.

1910-1920*	9.5%
1920-1930	1.3%
1930-1940	3.4%

*The data after 1920 are expressed on a constant price basis although it is not explicitly stated in the original source.

Source: A.F.Freris, The Greek Economy in the Twentieth Century, (London, 1986), p.103.

Greece remained predominantly a backward agricultural country.[4] Agriculture continued to be burdened with excessive land fragmentation, the absence of mechanisation, the preponderance of dry farming, the limited use of fertilizers and the poor quality of soil.[5] Yields were low for cereals as well as for export staples.[6] What change occurred was largely related to diversification brought about by the refugees.[7] The number of industrial plants doubled and the horsepower levels more than tripled.[8] However, as was the case with agriculture, fragmentation of production remained excessive. According to the Census of 1930, 92% of the industrial establishments employed less than 6 workers.[9] The sectoral breakdown of industry did not change and heavy industry remained practically non-existent.[10] The traditional sectors of textiles, food processing, chemicals and tanning retained their predominant position and accounted for about 80% of total industrial output in 1922 and 70% in 1932.[11]

Table 2

Index of Economic Activity (1928=100)

Year	Industrial Output	Agricultural Output
1922	70.5	
1923	62.7	
1924	80.7	
1925	88.8	
1926	84.5	
1927	94.4	
1928	100	100
1929	101.7	96.9
1930	105.2	100
1931	108.8	95
1932	102.6	132

Source: A.F.Freris, The Greek Economy in the Twentieth Century, (London, 1986), p.90.

Table 3

General Index of Economic Activity in Greece 1925-1934
(1928=100)

1925	99.1
1926	93.2
1927	98.6
1928	100
1929	103.5
1930	99.9
1931	95.3
1932	91.5

Source: K.Kostis, The Banks and the Crisis (Athens, 1986), p.121. Figures on economic activity prior to 1925 do not exist. However, from the work of Colin Clark it is confirmed that the National income was during the twenties growing at a 'good rate' until 1927. See: P.Dertilis, The Economic Issue, (Athens, 1951), p.24.

There was disarray in the realm of public finance prior to the stabilization programme of 1927-1928. The state budget was permanently in deficit. The government tackled this structural disequilibrium by resorting to the expediencies of extraordinary taxation, forced borrowing (in 1922 and 1926), and printing new notes.[12] The increase in the circulation of money was lower than the rise in the cost of living. The latter (i.e. depreciation), was in return far lower than the devaluation in the external value of the drachma. (See Appendix 2) Following stabilization the situation improved as up to 1931 the state followed a policy of sound finance.

Greece was an open economy. The total value of exports and imports accounted on average for 38% of G.N.P. Throughout the period there was a balance of trade deficit.[13] Hence the importance of borrowing. (See Table 4 below). Dependence on raw materials and staple food items was extensive. Industry imported 87% of its fuel requirements,[14] and although 2/3 of the cultivated land was devoted to cereal production more than half of the country's needs in cereals were satisfied through imports.[15]

Table 4

Year	Exports and Imports as a % of Gross National Product	Exports as a % of the Value of Imports
1922*	-	79
1923	35	42
1924	30	41
1925*	-	45
1926*	-	48
1927	42	51
1928	41	51
1929	45	52
1930	38	57
1931	33	48
1932	29	58

*The years 1922, 1925 and 1926 are not included in the Table as estimates of the G.N.P. for these years are not available.

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens, 1930), pp.129,198; G.Haritakis (ed.), Economic Yearbook of Greece for 1939, (Athens, 1940), Part II, pp.15,199. Also, B.R. Mitchell, European Historical Statistics 1750-1975, (London, second edition, 1981), p.822. Also, A.F. Freris, The Greek economy in the Twentieth Century, (London, 1986), p.107.

Greek trade was highly concentrated, both sectorally and geographically. Three items (tobacco, currants and olive oil) made up 70% of total exports.[16] As Table 5 demonstrates, four countries, (Britain, the U.S.A., Germany, Italy) absorbed 75% of the country's exports and accounted for more than 40% of imports. In particular trade dependence on Britain was notable. She absorbed approximately 2/3 of the country's second most important exportable good, currants,[17] and furnished 60-80% of Greece's coal imports.[18] What is more, Britain was Greece's major supplier of manufactured goods. The 1926 trade treaty granted British goods virtually 'free' access to the Greek market.[19]

In sum, the Greek economy during the twenties remained backward and an insignificant player in the international economy, accounting for a mere 0.3% of world trade.[20] In a lopsided external position, she was a market of minor importance for Britain and the U.S.A., her two major trading partners and sources of supply of capital.[21]

Table 5

Trade Flows (% of Total Value)

Exports					
Country	**1914**	**1922**	**1928**	**1931**	**1933**
Britain	25	23	13	15	19
U.S.A.	16	32	20	17	12
Germany	6	26	26	14	18
Italy	14	10	16	17	14
Imports					
Country	**1914**	**1922**	**1928**	**1931**	**1933**
Britain	20	14	14	13	14
U.S.A.	7	21	16	9	6
Germany	9	6	9	11	10
Italy	7	9	5	6	6

Data do not exist for all the years. There is not information for 1932, thus for the end year of our study we have cited 1931 and 1933.

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens, 1930), pp.203-204; also, G.Haritakis (ed.), Economic Yearbook of Greece for 1938, (Athens, 1939), pp.42-43; and also Ministere des Affaires Etrangeres, La Grece Actuelle, (Athens, 1933), pp.183-184.

From a political perspective, the decade under study was rich in events. In the spring of 1924 the country was declared a republic and in the summer of 1925 general Theodore Pangalos usurped power with the 'silent' assent of the National Assembly. Up to the downfall of Pangalos in the summer of 1926, the military played a prominent role in politics and inspite of the Asia Minor debacle, irredentist aspirations were a constant undercurrent. There was a high frequency of government changes (eight different governments held office between the autumn of 1922 and August 1926 and there were 13 different cabinets).[22] (See below Table 6) Intense division ('dihasmos') between pro-Venizelists and monarchists did not allow for the formation of cabinets with a strong electoral base.

Table 6

Governments and (Prime Ministers): 1922-1932

Monarchy	
November 14 1922	- January 11 1924 (Colonel S.Gonatas)
January 11 1924	- February 6 1924 (E.Venizelos)
February 6 1924	- March 12 1924 (G.Kafandaris)
Republic	
March 12 1924	- July 25 1924 (A.Papanastassiou)
July 25 1924	- October 7 1924 (Th.Sofoulis)
October 7 1924	- June 26 1925 (A.Michalakopoulos)
June 26 1925	- July 19 1926 (General Th. Pangalos)
July 19 1926	- August 26 1926 (A. Eftaxias)
August 26 1926	- December 4 1926 (G.Kondylis)
December 4 1926	- July 4 1928 (A.Zaimis)
July 4 1928	- May 26 1932 (E.Venizelos)
May 26 1932	- June 5 1932 (A.Papanastassiou)
June 5 1932	- September 27 1932 (E.Venizelos)

Compiled from: A.Provatas, Political history of Greece 1821-1980, (Athens, 1980), pp.439-500.

These were years of international isolation. Britain disapproved of the abolition of the monarchy and together with the League was heavily critical of the government's rearmament programme and military aspirations. Politics influenced the flow of foreign capital. Prior to stabilization, Greece suffered two major financial embargoes which were designed to influence internal politics. (For the first see, introduction to Book I and the First Refugee Loan and for the second see the chapter on the British war debt.). It is apparent that had Greece adjusted rapidly to the post WWI international scene the embargoes would not have been imposed. However, it can also be argued that the embargoes worked at cross purposes and strengthened the country's underlying trend towards political destabilization.[23]

Greece became a sad example of missed opportunities. It remained an outcast in the international community as late as December 1926 (at which point a coalition government was established).[24] It was then at long last, that the Hellenic Republic appeared to adjust to the postwar world order as three difficult issues were resolved: i) military influences in politics were curbed,[25] ii) war debt agreements were signed with three ex-Allies, iii) the drachma was stabilized and integrated into the gold exchange system.[26] However, the coalition government which had resolved these problems rapidly disintegrated. In August 1927, the Populist party withdrew its support from the coalition, disagreeing fundamentally with the stabilization programme. (See: Book I, Section III, Phase Two, Chapter 1) Then, in February 1928 the Republican Union retired because it disapproved of the government's handling of the national road project. (See Book II, Section II, Chapter One) The coalition government suffered its final blow in late May 1928, as a result of Eleftherios Venizelos' open attack against its handling of French war debt and the compensation of the National Bank of Greece for the removal of the note issue privilege.[27] (See Book I, Section III, Phase Two, Chapter Two and Phase Three) Venizelos' Liberal Alliance party came into office with an overwhelming majority in July 1928. As was the case with the coalition, Venizelos accepted the 'postwar dogma' propagated by the League of Nations. However, he differed from the coalition in that a centerpiece of his four year government involved strengthening Greek ties with her neighbours and lessening financial dependence on Britain. This last goal in combination with his flirtation with American capital, his limited understanding of how the international capital market operated and the principles of central banking, made his stay in office a difficult time.[28]

2.2. Foreign Portfolio Investment in Relation to the Total Foreign Debt and Domestic Borrowing

In the decade between the Asia Minor debacle of 1922[29] and the foreign loan default of 1932, the government borrowed £83,098,000 abroad.[30] By the standards of the day this was a large figure. [31] It was equivalent to 73% of G.N.P.[32] A little over half of the new borrowing debt,(i.e. £43,797,000) consisted of financial obligations directly related to Greece's war effort, namely the Balkan wars (1912-1913), WWI (1914-1918), and the Asia Minor Campaign (1919-1922). It was made up of diverse elements such as obligations to the ex-Allies and the purchase of the Salonika Monastir railways for strategic reasons.[33] (See below Table 7) The remainder,

Table 7

Foreign Obligations of the Government and Foreign Borrowing
(1922-1932)

Year	General Obligations		Loans			
	Title	Amount (£)	Title	Nominal Amount (£)	Issue Price	Nominal Interest Rate (%)
1922						
1923	•Canadian War Dept[1] Agreement •Penalty for military transgression paid to Italy under the orders of the League of Nations	1,700,000 500,000				
1924	•Participation of Greece in the Ottoman Dept	10,049,775	•First Refugee Loan (December 1924)	12,300,000	88	7
1925	•Penalty for military transgression paid to Bulgaria under the orders of the League of Nations	45,000	•Athens Water Loan (April 1925) •Belgian Railway Loan (August 1925)	2,100,000 4,300,000	85 92	8 8
1926			•Swedish Match Loan	1,000,000	94	8.5
1927	•British War Dept Agreement •U.S.A. War Dept Agreement[2] •Purchase of the Salonica Monastir Rails[3] •Compensation to Turkish Nationals for properties left behind in Greece	23,500,000 4,201,237 600,000 500,000				
1928			•Stabilization Loan (March 1928) •First Public Works Loan (December 1928)	7,500,000 4,000,000	86 84	6 6
1929						
1930	•French War Dept[4] Agreement	1,164,683	•U.S. Government Refugee Loan (April 1930) •Swedish School Loan (July 1930)	2,500,000 1,000,000	100 84	4 6
1931	•Compensation to Bulgarian Nationals for the properties left behind in Greece	1,537,205	•Second Public Works Loan (May 1931)	4,600,000		6
1932						
Total		43,797,900		39,300,000		

[1]This debt represented the conversion of a short term loan concluded for the provision of wheat during the war to a long term debt.
[2]$20,330,000.
[3]In 1927 the Greek state purchased from French interest the company of Salonika-Monastir railways and undertook the responsibility for the repayment of the remaining amount of the 3% loan the company had contracted in 1893. This amounted to 15,000,000 gold francs (i.e. approximately £600,000).
[4]Fr. Francs 144,144,512.

Compiled from: G.Haritakis (ed.),Economic Yearbook of Greece 1932, (Athens, 1933), pp.493-528.

about £39,300,000 consisted of nine loans which with one minor exception were of a productive nature and arose from the government's aim to modernize the economic infrastructure and expand productive capacity. The country was capital 'hungry'. The capital/land and capital/labour ratios had always been low, but they had become ever more so as a result of historical 'accident'. Following the Balkan wars, the area of the country had nearly doubled but with the refugee influx of 1922 there was a sudden net population increase of 20%.[34] These events triggered unprecedented borrowing for productive purposes and widened the scope for government economic initiative.[35]

Table 8

Internal-External Borrowing 1922-1932
(in £ sterling)

Year	Internal Loans	External Loans
1922	9,429,429	-
1923	667,868	-
1924	2,660,735	12,300,000
1925	2,126,477	6,400,000
1926	14,325,057	1,000,000
1927	2,170,963	-
1928	6,704,210	11,500,000
1929	2,719,999	-
1930	693,332	3,500,000
1931	864,511	-
1932	211,461	4,600,000
Total	42,574,042	39,300,000

Compiled from: G.Haritakis, (ed), Economic Yearbook of Greece for 1932, (Athens, 1932), pp.494-581.

Could the state have financed these new activities from the domestic capital market? Apparently the limited scope of the latter did not allow much room for internal borrowing. Of the £42,574,000 borrowed from domestic sources between 1922 and 1932 about 34% was secured through the unpopular device of forced loans.[36] Interestingly, internal borrowing was mostly for social welfare, e.g., refugees, and war victims absorbed about 77% of the amount raised, and only 2% were used for public productive investments. Contemporaries assumed that the flow of foreign capital would be more than ample to fund the more ambitious developmental projects undertaken by various administrations during the period. One cannot help asking if a substitution effect was at work. Namely, whether overseas borrowing displaced -crowded out- local saving; instead of widening the amount available for productive investment.[37] It can be argued that had foreign funds not been available, the interwar state would not have engaged in 'extensive' expenditure of a social welfare character.

2.3. Basic Features of Foreign Portfolio Investment

All of the foreign loans raised by the government except one - the Swedish School loan- were not 'pure' capital transfers. They were either managed by the League of Nations or they were tied loans managed by foreign business interests. (See below, Chart 1) Greece was not an usual case. As has been noted recently in the international literature, a large part of foreign portfolio investment was not simply "pure capital transfers, strictly for financial returns" but was vested with the type of external control associated with foreign direct investments.[38] Regarding the allocation of the funds it is notable that 41% of the capital raised was spent on public works, 39% was used for refugee settlement, 18% for stabilization, and only 2% was wasted on current consumption.

Chart 1

Main Loans and the Conditions under which they were Issued

I. Direct Government Loans:	
i. U.S.A. Refugee Loan (1929):	The proceeds were handled by the League appointed R.S.C.
II. Loans Raised on the International Capital Market	
i. Private Loans:	
a. Athens Water Loan (1925):	The creditors were granted a 27 year concession for the management of the Athens water system.
b. Belgian Railway Loan (1925):	This was a tied loan. The proceeds were spent on materials chosen by the creditor.
c. Swedish Match Loan (1926):	In return for this loan the state ceded the match monopoly of Greece for 28 years.
d. Swedish School Loan (1930):	Issued without conditions.
III. Loans Raised on the International Capital Market through Public Flotation	
i. League of Nations Loans:	
a. First Refugee Loan (1924):	Its proceeds were handled directly by the League appointed R.S.C. Also, it involved League supervision of Greek public finances.
b. Stabilization Loan (1928):	A tied loan raised for implementing a League stabilization programme. League supervision of Greek public finance became tight.
ii. Loans Raised without the Supervision of the League of Nations:	
a. First Public Works Loan (1928):	A tied loan raised for specific projects.
b. Second Public Works Loan (1931)	A tied loan raised for specific projects.

2.3.1. Net value of the capital flow

As already indicated, the total nominal value of the nine foreign loans raised during the decade 1922-1932 was approximately £39,300,000. However, due to the low issue prices the total real value of these loans amounted to only £34,200,000. But the net flow of foreign capital into Greece was even lower, it was a little over £30,000,000, as three of the 'foreign' loans were partially issued in Greece. Nevertheless, even this 'diminished' figure was significant for the small Greek economy. As indicated in Table 9, on average the 'net' inflow of foreign capital represented 14% of state expenditures and covered 24% of the trade gap.

Due to the absence of data on the balance of payments before 1928 it is not possible to measure accurately on a year to year basis the real contribution of foreign finance to the external accounts. (For the balance of payments from 1929 onwards see Appendix 3, Table 1).

Table 9

I)	Nominal value of the government foreign loans (1922-1932)	£41,000,000
II)	Net value of the government foreign loans (1922-1932)	£36,100,000
III)	Average annual net foreign capital inflow (1922-1932)	£ 3,200,000
IV)	III as a % of the average annual state expenditure (1922-1932)	14
V)	III as a % of the average annual exports (1922-1932)	21.5
VI)	III as a % of the average annual remittances (1922-1932)	48
VII)	III as a % of the average annual trade gap (1922-1932)	24

Compiled from: the data presented in the following Tables in Appendix 1: 1,2a and 2b; Also, G.Haritakis (ed), Economic Yearbook of Greece for 1932, (Athens, 1933), pp.493-528.

2.3.2. Geographical origins

Foreign capital was highly concentrated in origin. Of the seven foreign markets that raised loan capital for the Greek government three (Switzerland, Italy, and Holland), supplied less than one tenth of the total nominal amount. (See Table 10 below) Whereas, the contribution of Britain alone stood at 40%, even though for half of the decade the City of London had closed its doors to the Greek government.[39] Second in importance came the U.S.A., a newcomer in the Greek loan arena. It must be underlined that France up to WWI had been a major creditor. However, in the twenties France lost interest in Greece -presumably because Greece did not fit in with her novel Central European and Balkan policy- and thus abstained completely from issuing Greek government bonds.[40]

Table 10

Distribution of Foreign Loan Capital Raised by the Government According to Country of Origin (1922-1932)

Britain	40 %
U.S.A.	25 %
Greece	10.5 %
Belgium	10 %
Sweden	6.5 %
Switzerland	2.5 %
Italy	1.7 %
Holland	0.7 %

Compiled from: G. Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp.549-585.

Not all foreign bonds were floated abroad. Foreign institutions were often unwilling to arrange loans for the Greek government without the participation of local financial interests. Thus for three loans (the First Refugee Loan of 1924, the Athens Water Loan of 1925, and the First Public Works Loan of 1928) part of the capital was raised in Greece through the National Bank of Greece and the Bank of Athens. Both banks had close ties with foreign capital,[41] and in total, they placed 10% of these loans. In addition a large part of foreign bond issues overseas were purchased by Greeks. In 1933, it was estimated that over half of the government long-term foreign debt was held by Greek citizens at home and abroad.[42] Thus, it is the case that Greece conforms with the observation made by D.C.M. Platt that often foreign capital flows were not exclusively of foreign origin.[43]

2.3.3 Institutional morphology

The bulk of foreign loan capital was supplied through the market. Only in one instance -the U.S.A. Refugee Government Loan of 1929- were funds furnished by the Treasury of a foreign government. This direct inter-governmental grant was the most advantageous loan of the period. It was issued at par and it had the lowest rate of interest. The three most expensive loans (i.e. the Athens Water Loan of 1925, The Belgian Railway Loan of 1925, and the Swedish Match Loan of 1926) were placed privately on the international market and shared several characteristics. First, they were of non-British origin. Second, with the exception the Athens Water Loan, the funds were provided by firms whose main activities lay outside finance. Finally, all were issued at times when the city of London would not lend to the Greek government. (See Table 11).

Table 11

Terms Posed by Foreign Creditors According to Type of Loan (1922-1932)

Type of Loan	Issue Price	Interest Rate	Redemption Reriod
Direct government loans	100	4.5%	22,5 years
Privately placed loans	89	8.5%	23 years
League of Nations loans	87	6.9%	40 years
Non League publicly issued loans	86	7.5%	30,5 years

Same source as Table 8.

Table 12

The Channels of Supply of the International Capital Market (in million £)

	Formal Control	Informal Control	
	Public Flotations	Public Flotations	Private Loans
Hambros	£10,9	£6	0
Associates of Hambros	£ 6,5	£1,6	0
Unrelated to Hambros	0	0	£7,3
N.B.G.	£ 2,5	£1	0
Bank of Athens	0	0	£1,06
Total	£19,9	£8,6	£8,4

Overseas loans offered for public subscription were cheaper than the private loans. They accounted for approximately three quarters of foreign borrowing. This type of capital inflow was highly concentrated in structure. A single merchant bank, Hambros, issued around 60%. The government came to depend directly and nearly exclusively on Hambros for the flotation of public bonds abroad. Dependence ran both ways. According to Hambros the flotation of Greek government loans during the twenties became one of its major and most lucrative activities.[44]

Public flotations issued under the auspices of the League of Nations (i.e. the First Refugee Loan of 1924, and the Stabilization Loan of 1928) had a comparatively low real rate of interest. However, from the perspective of the government, they suffered from two major drawbacks. Their proceeds were managed by the League and the public policy of the Greek government came under close scrutiny by the Financial Committee of the League.

In closing the description of the framework through which foreign portfolio investment entered the public sector it must be underlined that the Greek state desired throughout the period to escape from British financial 'hegemony' and to develop stronger ties with American capital. But, this did not prove possible. Greece stabilized in 1928 and "From the latter part of 1927 the American investor lost his taste for foreign bonds, preferring the more exciting possibilities of a rising market in American equities".[45] Furthermore, the intimate relationship which Hambros enjoyed with the British establishment and the National Bank of Greece did not allow much room for new 'independent' entrants. In the end, although the U.S.A. supplied 25% of foreign loan capital it was merely a passive participant in the syndicated loans raised by Hambros.

In sum, public flotations accounted for 74% of the funds raised. The greater part of this figure passed through British hands.[46] Finally, it should be underlined that over half of the loan capital was provided under the auspices of the League of Nations and the guarantee of the I.F.C. (See Table 12).

2.4. How Typical a Case was Greece in the Context of the Interwar World Economy?

By 1932 Greece was a heavily indebted country. The total foreign debt stood at £125,000,000 and it was equivalent to the highest figure the G.N.P. attained at any time in the interwar period![47] (See Tables 4 and 4a in Appendix 1 for the breakdown of the total foreign debt in 1932). The annual service of the foreign debt absorbed a little over 9% of the National Income. An indirect index of the 'openess' of the Greek economy is that for its Balkan neighbours the respective figures were significantly lower. For example, for Yugoslavia it was 1.7%, and for Bulgaria 3%.[48]

Greece was an exception in that she did not raise loans for re-armament. Moreover, the League loans did not bring back fugitive capital as was the case for example with Austria and Hungary.[49] Nor did stabilization enhance the flow of new foreign funds or emigrant remittances. (For emigrant remittances see Table 2a in Appendix 1). Also, foreign direct investments between 1922 and 1932 represented only 11% of the total capital inflow whereas at the time foreign direct investments in the international economy represented at least a quarter of total capital movements.[50] However, in one respect Greece was a typical European borrower: the reconstruction of the twenties depended heavily on foreign finance.[51]

In this introduction to the thesis we have set the political and economic background and outlined the origins, dimensions and of Greece. It shows that throughout the period Greece was a weak player in the international capital market,* foreign portfolio investment was vested with extensive foreign control and that foreign finance, inspite its large volume and 'productive' orientation did not solve the country's chronic structural imbalances and instigate an industrial revolution.

*For the credit rating of Greece according to the League of Nations see Book I, Section III, Phase Two, Chapter 3, Table 3. From this Table it construes that in terms of the real rate of interest charged the First Refugee Loan of 1924 occupied the 6th position and the Stabilization Loan of 1928 the 1st position among the eight League loans raised during the twenties.

References

1. For example we have no G.N.P. estimates prior to 1927. For a detailed discussion of the difficulties that exist with the available data see Freris, *op.cit.*, pp.102-113. For an account of the development of the National statistical services, see: M. Houliarakis, "Ιστορική Εξέλιξις της Κρατικής Στατιστικής εν Ελλάδι 1821-1971" (Historical development of state statistics in Greece 1821-1971) in the National Centre of Social Studies (ed.), Στατιστικαί Μελέται 1821-1971. Η Στατιστική κατά τα 150 έτη υπό της Παλιγενησίας της Ελλάδος (Statistical Studies 1821-1971. Statistics during the 150 years from the regeneration of Greece), (Athens, 1972), pp.41-65.

2. For the fall in G.N.P., see: Freris, *op.cit.*, pp.111,113.

3. In 1932 the level of industrial output was higher than in 1929. Infact, Greek industry suffered less compared also to other peripheral economies such as Hungary, Rumania, Poland and Checkoslovakia. Source: K.Kostis, Οι Τράπεζες και η Κρίση 1929-1932 (The Banks and the Crisis 1929-1932), (Athens, 1986), p.22.

4. For the preponderant position of agriculture (it made up for 36% of the National Product in 1924 and 38% in 1934), see: Freris, *op.cit.*, p.107.

5. The use of fertilizers was very low: 3,3 kilograms per stremma* compared to 9,9 for Italy and 17,6 for Germany. Economic Survey of Greece for 1929, p.50. For a well-rounded presentation of the problems of Greek agriculture during the interwar years, see: C.Evelpides, Η Γεωργία της Ελλάδος (The Agriculture of Greece), (Athens, 1944). Also, A.Bernaris, Η Διάρθρωσις και αι Προσπάθειαι Προσαρμογής της Ελληνικής Οικονομίας, (The Structure and the Corrective Adjustment Efforts of the Greek Economy), (Athens, 1933), pp.68-73. Also, A.D.Sideris, Η Γεωργική Πολιτική της Ελλάδος κατά την Λήξασαν Εκατονταετίαν 1833-1933, (The Agricultural Policy of Greece during the last 100 Years 1833-1933), (Athens, 1935).

6. For example, Greece had the lowest cereal yield in the Balkans. The yield per stremma of olive oil, which was a basic exportable was 15 kilos for Greece and 18.6 kilos for Spain. Source: G. Haritakis (ed.), Οικονομική Επετηρίς της Ελλάδος 1929 (Economic Yearbook of Greece for 1929), (Athens, 1930) p.93.

7. For the contribution of the refugees to Greek agriculture, see: D.Pentzopoulos, The Balkan Exchange of Minorities and its Impact upon Greece, (Paris, 1962). Also, G.Lampsidis, Η Ανάπτυξις της Αγροτικής Οικονομίας, (The Development of the Agricultural Economy), in *Οικονομικός Ταχυδρόμος*, April 26 1973, pp.51-55. Also, A.I.Aegides, Η Ελλάς χωρίς τους Πρόσφυγες (Greece Without the Refugees), (Athens, 1934).

8. Supreme Economic Council, Η Ελληνική Οικονομία κατά την Διάρκεια του 1939, (The Greek Economy during 1939), (Athens,1940). The interwar years, see: M.Dritsa, Βιομηχανία και Τράπεζες στην Ελλάδα του Μεσοπολέμου (Industry and Banks in Interwar Greece), (Athens, 1990).

9. G.Anastassopoulos, Ιστορία της Ελληνικής Βιομηχανίας 1885-1940 (History of Greek Industry 1885-1940), Vol.III, (1923-1940), pp.1259-1267, (Athens, 1947).

10. For example, the first company for the production of iron and steel sheets and tinplates was established in 1939. Source: Great Britain Admiralty, Naval Intelligence Division, A Handbook of Greece, (London, 1941), Vol.2., p.130.

11. For the sectoral distribution of industry, see: G.Haritakis (ed.), Οικονομική Επετηρίς της Ελλάδος 1938, (Economic Yearbook of Greece for 1938), (Athens, 1939), p.283.

12. For the forced loans of 1922 and 1926, see: Bank of Greece, Τα Πρώτα Πενήντα Χρόνια της Τραπέζης της Ελλάδος 1928-1978, (TheFirst Fifty Years of the Bank of Greece 1928-1978), (Athens, 1978), pp.33-34.

13. This deficit persisted inspite of the new tariff introduced in the early twenties. For the new tariff and the reactions against its imposition, see: Economic Yearbook of Greece for 1929, pp.210-215. Indeed importing merchants were at the time "a considerable and powerful proportion of Greek commercial interests". Source: H.M.SO, Department of Overseas Trade, (R.F.H.. Duke), Report on the Industrial and Economic Situation in Greece for the years 1923 and 1924, (London, 1925), pp.14-15.

14. For fuel imports and the structural trade imbalance, see: I.Pepelasis, Agricultural Policy in Greece, 1923-1936, (M.Sc. Thesis 1976), p.7.

15. For the fact that 70% of the land was devoted to cereals, see: Economic Yearbook of Greece for 1929, p.47.

16. These figures are based on estimations for 1928.

17. F0371/9888/C19814/19, Annual Report for 1924.

*1 stremma is equal to a quarter of an acre.

18. Britain was Greece's major supplier of coal. It supplied 60-80% of the total amount of coal imported. Source: HMSO, Department of Overseas Trade, (R.M.A. Turner), Report on the Industrial and Economic Situation in Greece, May 31st 1927, (London, 1927), pp.29,63.

19. For the new Anglo-Hellenic Commercial Treaty signed by Pangalos in July 1926, see: Bloudanis, *op.cit.*, pp.84-87.

20. Economic Yearbook of Greece for 1929, p.196, gives for the first half of the decade the figure of 0.35%. For 1913 the figure given is 0.2%. Because a new study, for 1913 quotes 0.14% it is likely that the Yearbook figure for the twenties is slightly exaggerated. See: P.E.Petrakis and H.Panorios, "Economic Fluctuations in Greece: 1844-1913", *J.E.E.H.*, Vol.21, Number 1, spring 1992, p.34.

21. For Greece's share in world trade and the figures for Britain, see: The Secretary of the Share and Loan Department, The Stock Exchange Official Intelligence, editions for 1924, 1928, 1931. For the fact that in the mid twenties for the U.S.A. exports and imports to Greece were about 0.5% of her total exports and imports, see: L/N/S119/Article 16, Economic Sanctions, memorandum prepared by Sir Arthur Salter titled: "The Graeco-Bulgarian incident 'sanctions'", October 1925.

22. For the definition of political instability as the existence of more than one government every three or four years, see: A.J.Kondonassis, A.G.Malliaris, N.S.Robinson, "Political Instability and Economic Development: an Economic History Case Study of Greece 1948-1966", *J.E.E.H.*, Vol.12, Number.2, fall 1983, pp.351-62. The Pangalos dictatorship was essentially overthrown on August 26, 1926, although Pangalos had stepped down and placed A.Eftaxias as a puppet Prime Minister on July 19, 1926. Source: A.Provatas, Πολιτική Ιστορία της Ελλάδος 1821-1980. Νομοθετικά και Εκτελεστικά Σώματα, (Political History of Greece 1821-1980. Legal and Administrative Bodies), (Athens, 1980), p.426.

23. The relationship between foreign finance and political instability has not been extensively explored in the case of Greece. However, for the complicated relationship between political instability and economic development and the difficulty in establishing mono-causal relationship between these two variables, see: Th.Lianos, "Political Stability and Economic Development: the Case of Greece, 1948-1966", *J.E.E.H.*, Vol.15, Number.3, Winter 1986, pp.617-619.

24. The coalition was brought into power by the elections of December 1926. These were the first elections to be held in Greece since 1921. The coalition was made up of four parties: the United Liberals, the Republican Union, the Populist, and the Free opinion party. The the populace continued to be divided between Venizelists, and anti Venizelists. But, in each camp, it was the moderate parties that had received the overwhelming support of the voters. "Among the Venizelists the radical Republican Union had won only 17 seats, while in the opposite camp the moderate Free opinion party of Metaxas, which had accepted the republican constitution as a basis for political life, now held almost as many seats as the Populist party which threatened to reopen the constitutional issue.". Source: J.Campbell & P.Sherrard, Modern Greece, (London, 1968), pp.135-136.

25. The word permanently is in inverted comments for the reason that in the spring of 1936 a new dictatorship was established under Ioannis Metaxas. For the role of the military in Greek politics during the period, see: Th. Veremis, Οι Επεμβάσεις του Στρατού στην Ελληνική Πολιτική 1916-1936, (The Interventions of the Army in Greek Politics 1916-1936), (Athens, 1977), p.189.

26. One more welcome development was the new constitution which was voted on June 3, 1927. It was not noted for its originality. However, it was more progressive, and suffered from less technical weaknesses than the previous three constitutions of Greece (i.e. those of 1844, 1864, and 1911). For details see: History of the Greek Nation, Vol.IE, pp.306-307; also, A.Svolos, The new Constitution and the foundations of Government, Athens, 1928, (in Greek); also, S.Markezinis, Πολιτική Ιστορία της Νεωτέρας Ελλάδος: Η Σύγχρονη Ελλάς (Political History of Modern Greece: Contemporary Greece), (Athens, 1978), Vol.3, pp.152-155.

27. Kafandaris had taken over the leadership of the liberal party after Venizelos had withdrawn into self exile in 1925. Source: History of the Greek Nation, Vol.IE, pp.304-305.

28. Venizelos came into office with a landslide victory (the liberals won 61% of the votes, and were awarded 89% of the seats in the National Assembly). He ruled the country with an iron hand. See: G.Daphnes, Η Ελλάς Μεταξύ Δύο Πολέμων 1923-1940, (Greece Between Two Wars 1923-1940), (Athens, 2nd Edition, 1974), Vol.A, pp.394-398. Also, see: J.Campbell & P.Sherrard, *op.cit.*, p.137. For Venizelos' foreign policy, see: K.Svolopoulos, Η Ελληνική Εξωτερική Πολιτική 1900-1945, (Greek Foreign Policy 1900-1945), (Athens, 1992), pp.211-228.

29. Let us remind the reader that 1922 is considered the opening date of the Greek interwar period.

30. If we take into consideration not only the loans raised by the government but also the sums raised by various 'public' bodies abroad (i.e. the loans of the National Mortgage Bank, the Greek electric railways and the ports of Candia and Pireaus), the total amount of debt accrued by the state in the wide sense was slightly higher. Namely, it was £85,650,000 and not £82,600,000 as stated above. For a brief account of the long-run pattern of development Greece's public foreign debt, see: A.Agiopetritis, "Τα Εξωτερικά Δημόσια Δάνεια από της Επαναστάσεως του 1821 Μέχρι Σήμερον", ("The Greek public foreign loans from the Revolution of 1821 up to Today"), in the National Center of Social Studies (ed.), *op.cit.* (Athens, 1972), pp.292-348.

31. On the basis of one source's estimate of the foreign debt in 1924 it is possible to extrapolate that in 1922 the country's public foreign debt inclusive of the inter-Allied war debts was £58,000,000. On the basis of this figure it is possible to extrapolate that the foreign public debt in 1922-exclusive of the war obligations amounted at most to £20,000,000.Sources: P.Freme, Greek Government Loans some Facts and Figures, (London, 1924), p.6. This is a pamphlet which was circulated upon the occasion of the flotation of the First Refugee Loan of 1924. Also, N.Bloudanis, Dependence et l' Imperialisme - l' Importance des Relations Economiques Anglo-Greques entre 1918-1940, (Fribourg, 1989), pp.84-87,112.

32. This figure has been based on the average for G.N.P. for 1927-1932. Accurate data on the G.N.P. do not exist for the twenties. For estimates of the size of the National Income during the interwar years, see: A.F.Freris, *op.cit.*, p.105. Also, B.G./T.A., Document 26/5.

33. The penalties imposed by the League of Nations for transgressions made during the twenties were also war related in a wide sense as they expressed Greece's failure to drop irredentism. See Table 7 above.

34. According to the census of 1907 the area of the country was 63,211 square kilometres whereas according to the census of 1920 it was 130,199 square kilometers. Source: Economic Yearbook of Greece for 1929, p.6.

35. During the 19th century the government resorted to the international capital market for revenue and military loans on the whole. It defaulted three times: in 1827,1843 and 1893. There was productive borrowing during the Trikoupis years in the 1880's but it was much more limited in extent.

36. The magnitude of internal borrowing is exemplified by the fact that in the beginning of 1922 the internal foreign debt amounted to roughly £20,000,000.

37. A.Fishlow "Foreign Loans, Debt and Economic Development in the 19th and 20th Centuries" in H.Van der Wee and E.Aerts (eds.), Debates and Controversies in Economic History, (Leuven, 1990), p.121.

38. For the recent 'discovery' of the international literature that foreign portfolio investment has historically usually entailed elements of 'direct' investment, and for the quotation in the text, see: M.Wilkins, "Modern European Economic History and the Multinationals", *J.E.E.H.*, Vol.6, Number 3, winter 1977, pp.585-586. Also, see: P.S.Svedberg, "The portfolio-direct composition of private foreign investment in 1914 revisited", *Economic Journal*, December 1978, pp.763-777. Also, M.Wilkins, "The free-standing company, 1870-1914: an important type of British foreign direct investment", *E.H.R.*, 2nd series, XLI, 2(1988), pp.259-282.

39. During the twenties two embargoes had been imposed. The first (1920-1923) was related to Britain's disapproval towards political events in Greece, and the second (1925-1927) was placed in order to force Greece to settle its war debt towards Britain and work towards stabilization. New York also followed suit with these two embargoes.

40. For the 12 foreign loans raised by the government between 1879-1914 only in two cases -the loans of 1889 and 1890- did French capital not participate. Foreign investments were not so important for France after WWI. However, after de jure stabilization in 1928 and up to 1933, new French issues on foreign account amounted to nearly 9,000 million francs. Presumably French foreign loans were at the time basically motivated by political considerations. It has been argued that France lost interest in Greece because of its Central European and Balkan policy which entailed tight relations with Yugoslavia. Relations between Greece and Yugoslavia in the twenties were troubled and France showed its 'indifference' towards Greece by pressuring her to give in to Yugoslavian demands. See: R.I.I.A., The Problem of International Investment, (London, 1937), pp.213,217-218. Also, History of the Greek Nation, Vol.IE, p.286 and Svolopoulos, *op.cit.*, p.207.

41. The National Bank in total issued 75% of the foreign loan capital raised for the Greek government at home. Source: Economic Yearbook of Greece for 1932, pp.549-585.

42. The League of Nations, Financial Committee Extra Session held in London, June 6-14th 1933, Report to the Council on Greece. For the fact that an issue of a loan in London did not necessarily imply that it was taken by British investors, see S.Chapman, The Rise of Merchant Banking, (London, 1984), p.176.

43. Platt, (1984) *op.cit.* pp 1-4.

44. B.Bramsen, and K.Wain, The Hambros 1799-1979, (London, 1979), pp.272-281,378-379.

45. R.I.I.A., (1937), *op.cit.*, p.10.

46. The participation of British capital in the total foreign debt of Greece in 1932 was £60,000,000 and it represented 48.8% of the total foreign debt of Greece. In 1914 it was £15,600,000 and it represented 46% of the total foreign debt. Source: Bloudanis, *op.cit.*, pp.146,112. For Greece's importance to Britain the following should be noted: in 1930, British portfolio investment in Europe represented £120,000,000. Greece between 1922-1932 absorbed 13,3%, i.e. £16,000,000. Thus, Greece was relatively important for Britain as a receiver of loans within the European context. But it should be underlined that in 1930 (which was the peak year in the worlds international investment in the interwar years, only 8% of British overseas investment was tied in Europe. Source: A.Salter, Foreign Investment, Essays in International Finance, no. 12, (Princeton University, 1951), p.18.

47. This figure includes the public and private foreign debt. The significance of this figure is highlighted by the fact that in the eighties -although Greece has been suffering from a high external debt- it has not surpassed 47% of the G.D.P. Source: O.E.C.D., Economic Surveys, Greece 1989/1990, (Paris, 1990), pp.71,103 and Basic statistics: international comparisons at the end of the booklet. Also, it should be noted that in terms of international comparisons, in a list of 26 countries made by the R.I.I.A. (on the basis of data for 1930 regarding the per capita foreign debt) Greece held together with Austria the 12th position. Its per capita foreign debt was estimated at £18. At the top of this list was New Zealand with £128 and the bottom was China with £1,5. Source: R.I.I.A., (1937), *op.cit.*, p.223.

48. In 1932, the per capita foreign public debt was $43,07 for Greece, $27 for Yugoslavia and $18,8 for Bulgaria. Source: History of the Greek Nation, p.337. For more details see: P.Rediades, Εκθεσις επί του Προϋπολογισμού του Ετους 1932-1933, (Report on the Budget 1932-1933), (Athens, 1933).

49. For the fact that the League loans in Austria and Hungary brought back fugitive capital, see: Salter, *op.cit.* Indeed, capital flight was pronounced in Greece. In 1927 it was reported according to one source that "the value of Greek deposits in the United Kingdom, France, Switzerland and the United States of America at £400 million and $2,000 million" Though these figures were probably exaggerated, nevertheless they give us a rough idea of the extent of capital flight. Source: FO371/12924/C780/132/19, Annual Report on Greece for 1927. See also, H.A. Hill, The Economy of Greece (report prepared for the coordinating committee of American Agencies in Greece), (New York, 1943), Part I, pp.42-43.

50. J.H.Dunning, Studies in International Investment, (London, 1970), chapter 1.

51. For this and the fact that the capital imported was not directly directed towards increasing the export-earning capacity of Greece (although loans for roads and agriculture could have raised export production), see: I.T. Berend and G.Ranki, Economic Development in East-Central Europe in the 19th and 20th Centuries, (New York, 1974).

BOOK I

INTERNATIONAL FINANCE AND FOREIGN INSTITUTIONAL 'TUTELAGE'

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INTERNATIONAL FINANCE AND FOREIGN INSTITUTIONAL 'TUTELAGE'

INTRODUCTION

1. The Themes and the Sources

1.1. The Themes

The interaction between money and power occupies center stage in Book I. The money was furnished for the settlement of the refugees and stabilization. The power was exercised by two international institutions, the League of Nations and the International Financial Commission, which were strongly influenced by the Bank of England and the British Treasury respectively. Section I presents the conditions under which the League of Nations financed and implemented a Greek refugee settlement plan. Emphasis is placed on the limited options facing the Greek state and the extent to which the Bank of England and the League used finance as a tool of political coercion. The financial and political causes of Greece's estrangement vis a vis its supervisors and the City of London during 1925-1926 are discussed in Section II. Section III examines the origins and application of the League stabilization plan. While the importance of the international dimension (i.e. the world crisis of 1931 and Greece's chronic negative trade balance) is not disputed, it is argued that institutional and structural flaws played a prominent role in the collapse of free convertibility. The failure of stabilization to trigger foreign financial flows for industry is also portrayed. Finally, in the Conclusion to Book I, the League stabilization plan is explored from a comparative perspective.

Throughout Book I, particular emphasis is given to the varied and complex mosaic of Greece's relations with Britain. The conclusion reached is that although there was no explicit strategy of political and economic subjugation, once Greece approached the League of Nations for financial assistance, the Bank of England and the British Treasury exploited the situation in order to impose on the Greek government the principles of 'sound finance' and extract political and financial concessions to this end. The power which London exerted over Athens was a combination of coercion and 'willing' consent. Britain exercised coercion through the two embargoes it actually imposed in the twenties coupled with the threat of others. Clearly, these threats were of significance because Greece wished to borrow and Britain was able to lend. As for consent, it existed to the extent that Greece applied the League stabilization plan (i.e. it balanced the budget, cut military expenditure, enforced a banking reform, joined the gold standard exchange system and accepted foreign supervision over the country's public finances). Above all Greece 'acknowledged the validity' of British 'leadership' in the hope that a massive flow of capital would ensue.[1] Let it be underlined that although Greece may have not been compelled to adopt the League plan, there was little alternative to 'consent' for during the twenties default was unthinkable. It is also apparent that in monetary affairs there was a manifestation of 'structural' power. When Britain departed from the gold standard in September 1931 havoc was created in the Greek business community as in the recent decades all serious transactions had been conducted in pound sterling. A final comment regarding the nature of Greece's dependence on Britain: it is often argued that in the twenties political considerations played an important part in the loans raised in Britain for European countries.[2] In the Greek case it appears that it was not the loans, but the temporary withholding of them, that was prompted by Britain's desire to influence the internal political affairs of Greece.

Related themes explored in Book I include: i) French aversion to League loans and 'British expansionism'. Although it was no longer interested in Greece as an area of investment, French policy regarding Greece was to exploit its position on the I.F.C. and the Paris Agreement of 1918 in order to settle old accounts (i.e. the war and Ottoman debts). ii) The underlying antagonism between the International Financial Commission and the League of Nations. iii) The ambiguous attitude of Greece towards its supervisors, at one moment proposing the enhancement of tutelage (as in the Refugee Loan) and at another seeking to escape. iv) The lack of a precise government strategy. The Greek government attempted to secure a large inflow of foreign funds while concurrently adopting an ultranationalist stance on the issue of the war debt. v) The dilemma confronting Greece and foreign supervisors regarding legitimate needs in armaments and social welfare expenditure. vi) The diverging economic philosophy of the Greek authorities vis a vis the country's financial supervisors. Standard economic theory suggests that "When countries suffer an external shock such as World War I or the Great Depression, [or it may be added, a massive influx of refugees] restoration of macroeconomic equilibrium can be expedited by a depreciation which raises prices and profitability and redeploys resources faster than is possible through adjustments in the entire spectrum of domestic prices and costs."[3] However, in the interwar years exchange rate flexibility and depreciation were viewed by British policymakers as an anathema and not as a stimulus of recovery and economic development. This created a problem as in Greece there was a total absence of a 'British academic tradition'. Those prominent Greek academics, bankers and politicians who had studied abroad were educated in Germany or France and became imbued with what was at the time called the 'banking school principle'. This continental tradition held that an expansion in the volume of business and bank deposits should be followed by an expansion in monetary circulation. Its principal consideration was not the intrinsic value of money as a store of value but that the supply of money should suffice for the needs of commerce. On the other hand, the country's supervisors were avid advocates of the 'currency' school which placed emphasis on stability. Namely, it propounded that the prime consideration regarding the expansion of the note issue should be safety and not elasticity. An interesting "unbalanced situation developed whereby Greece was tightly linked to Britain politically and economically but in the realm of economic thought there was no corresponding connection."[4]

In sum, clashes between Greek institutions and the tools of foreign control reflect vital differences in intellectual make-up. The details of the thesis will provide interesting information for those who study intellectual history and the dissemination of ideas.

Book I of the thesis provides the first integrated analysis of these themes. Hitherto, the literature of the interwar period has dealt only with four issues. Namely, the negotiations for the

First Refugee Loan, the contribution of the refugees and the League inspired settlement scheme to the economy of Greece, banking reform and the war debts. Only the second topic has been analysed thoroughly. Regarding the other three, most texts rely on a narrow range of sources and fail to take into account the wider framework of foreign finance and control.

1.2. The Sources

The archival material covering the League of Nations financial involvement in Greece is abundant in volume and variety. It documents the whole story from the preparatory phase of the refugee settlement loan (i.e. 1922) to the demise of gold exchange standard system in September 1931. This material exists in several international, state, bank and personal archives, all of which have been consulted. Namely, the League of Nations Archive at the United Nations in Geneva, Foreign Office Documents at the Public Records Office and the Bank of England Archive in London (this is the first thesis to draw upon this material), the U.S.A. Department of State Records in Washington, the Greek Ministry of Foreign Affairs Historical Archive, the National Bank of Greece (hereafter N.B.G.) Historical Archive., theTsouderos Archive at the Bank of Greece and the Venizelos Archive at the Benaki Museum in Athens. The Hambros Archive at Guildhall was also consulted but it has very little on Greece for this period, practically all documents that exist are pre WWI. According to the officials of Hambros the records on Greece were deposited outside London during World War II and did not escape bombardment. In addition, Book I draws on printed primary material (such as the press, parliamentary debates, and contemporaneous secondary material) and recent studies on the interwar economy.

2. The Legacy of Foreign Control

2.1. The 19th Century Legacy

In 1897 Greece was defeated in a thirty day war with Turkey.[5] A £T4,000,000 indemnity was demanded by the Porte, but the country was not in a position to pay. The six mediating European Powers Britain, France, Germany, Italy, Austria and Russia conducted an investigation and decided to place Greek finances under international supervision.[6] Thus, in 1898, they set up the International Commission of Control. One year later it was renamed the International Financial

Commission (hereafter I.F.C.) because of the negative connotations the word 'control' carried. Nevertheless, the Greeks have always referred to the institution as "The Control".[7]

The I.F.C. was assigned three functions. First, it was in charge of handling the proceeds of the 150,000,000 francs loan raised in 1898 under the guarantee of Britain, France and Russia, for the purpose of indemnifying the Porte, covering the Greek fiscal deficit of 1897 and converting the floating debt.[8] Second, 51% of the foreign debt was placed under its authority. (See below Table 1a). The revenues allocated to it were the salt, petrol, matches, playing cards, cigarette paper and Naxos emery monopolies, taxes on tobacco, stamp duties and import duties applied at the Port of Pireaus. This was no small affair: the total income of the I.F.C. during its first year of operation amounted to about 35% of the ordinary receipts of the state. Its position of influence is also demonstrated by the fact that it was given a power of veto over modifications in the laws and regulations affecting the assigned revenues, with the exception of custom duties.[9]

Third, the I.F.C was to supervise Greek monetary policy. The ultimate aim being to restore the drachma to its pre-war gold parity- by 1898 it had depreciated by 33%.[10] In 1877 Greece had abandoned a bimetallic standard and adopted a system of inconvertible currency. The Commission, through the 'Law of Control of 1898', was vested with the power to reduce the existing level of monetary circulation and block further issues of banknotes.[11] Until 1910 when the drachma was restored to its gold parity, it destroyed annually 2,000,000 drs. in notes from the surpluses of the assigned revenues.[12]

In addition to these functions, the I.F.C. subsequently guaranteed the service of 75% of the foreign loan capital raised from 1898 to 1922.[13] (Table 1b) To 'enable' the I.F.C. to supervise these new loans, additional revenues were placed at its disposal. These were, the surtax on tobacco, and custom receipts at Laurium, Corfu, Patras, Volos, Salonika, and Kavalla.[14]

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Облигація въ 937 рубл. 50 коп. на предъявителя.

Τὸ κεφάλαιον καὶ οἱ τόκοι τοῦ παρόντος δανείου εἰσὶν ἀπηλλαγμένοι ἐσαεὶ ἀπὸ παντὸς φόρου Ἑλληνικοῦ. Ὁ κομιστὴς δικαιοῦται εἰς κεφάλαιον 2,500 φράγκων ἀποφέρον ἐτήσιον τόκον πρὸς 2 1/2 0/0 πληρωτέον καθ' ἑξαμηνίαν τῇ 1ῃ Ἀπριλίου καὶ τῇ 1ῃ Ὀκτωβρίου ἑκάστου ἔτους (ν. ν.). Οἱ τόκοι οὗτοι παραγράφονται μετὰ πενταετίαν. Ἡ ἀπόσβεσις τοῦ κεφαλαίου ἐνεργηθήσεται εἰς τὸ ἄρτιον διὰ κληρώσεων ἐνεργηθησομένων κατὰ πᾶσαν 1ην Ἰανουαρίου καὶ 1ην Ἰουλίου (ν. ν.) ἢ δι' ἐξαγορᾶς. Ἡ πρώτη κλήρωσις ἐνεργηθήσεται τῇ 1ῃ Ἰανουαρίου 1903. Τὸ κεφάλαιον τῶν κληρουμένων ὁμολογιῶν παραγράφεται μετὰ τριακονταετίαν. Μέχρι τῆς 1ης Ἀπριλίου 1918 δὲν χωρούσιν οὔτε προπληρωμαὶ ἐπὶ τοῦ δανείου οὔτε τροπὴ αὐτοῦ.

ΒΑΣΙΛΕΙΟΝ ΔΑΝΕΙΟΝ ΗΓΓΥΗΜΕΝΟΝ ΤΗΣ ΕΛΛΑΔΟΣ

Καθ' ὅσον ἡ ὑπηρεσία τοῦ δανείου δὲν ἤθελεν ἀσφαλισθῇ διὰ τῶν ὑπὸ τοῦ ἄρθρου 21 τοῦ Βασιλικοῦ Διατάγματος τῆς 22 Ἀπριλίου (4 Μαΐου 1898) προβλεπομένων προσόδων, ἡ ἀλληλέγγυος ἐγγύησις τῆς Γαλλίας, τῆς Μεγάλης Βρεττανίας καὶ τῆς Ρωσσίας ἀσκηθήσεται ὑπὸ τὰς ῥήτρας καὶ τοὺς ὅρους τῆς συμβάσεως τῆς συνομολογηθείσης ἐν Παρισίοις τῇ 17/29 Μαρτίου 1898 μεταξὺ τῶν τριῶν εἰρημένων δυνάμεων καὶ τῆς Ἑλλάδος. Ἡ ἐγγύησις ἐπετράπη ἐν Γαλλίᾳ δυνάμει τοῦ Νόμου τῆς 8 Ἀπριλίου 1898 καὶ τοῦ Διατάγματος τῆς 28 Μαΐου (ν. ν.), ἐν Ἀγγλίᾳ δυνάμει τοῦ Νόμου τῆς 1ης Ἀπριλίου 1898 (ν. ν.), καὶ ἐν Ρωσσίᾳ διὰ τῆς αὐτοκρατορικῆς κυρώσεως τῆς συμβάσεως ἀπὸ 28 Μαρτίου /9 Ἀπριλίου 1898.

Le capital et les intérêts de cet emprunt sont à jamais affranchis de tout impôt hellénique.

Le porteur a droit à un capital de 2,500 fr. produisant un intérêt annuel de 2 1/2 p. 0/0, payable par semestre, les 1er avril et 1er octobre de chaque année. Ces intérêts se prescriront par cinq ans.

L'amortissement de l'emprunt s'effectuera au pair, par voie de tirages opérés les 1er janvier et 1er juillet de chaque année, ou au moyen de rachats sur le marché.

Le premier tirage aura lieu le 1er janvier 1903. Le capital des titres amortis se prescrira par 30 ans. Jusqu'au 1er avril 1918 il ne pourra être procédé ni à des remboursements anticipés, ni à la conversion de l'emprunt.

Si le service de l'emprunt ne peut être assuré par les ressources prévues à l'article 21 du décret royal du 22 avril/4 mai 1898, la garantie collective et solidaire de la France, de la Grande-Bretagne et de la Russie s'exercera suivant les clauses et conditions de la convention conclue à Paris les 17/29 mars 1898, entre ces trois Puissances et la Grèce.

La garantie est autorisée en France par la loi du 8 avril 1898 et le décret du 28 mai suivant, en Angleterre par la loi du 1er avril 1898 et en Russie par la ratification impériale de la convention en date du 28 mars/9 avril 1898.

The capital and interest of this loan are exempt for ever from every Greek tax.

The Bearer is entitled to a capital sum of £ 100 with interest at the rate of £ 2 : 10 s. per cent. per annum payable half-yearly on the 1st April and 1st October in each year. Coupons not presented within five years of their due dates will be forfeited.

The redemption of this loan will be effected at par, by means of drawings which will take place on the 1st January and 1st July in each year, or by means of purchases in the market. The first drawing will take place on the 1st January 1903. Drawn bonds not presented within thirty years will be forfeited. Until the 1st April 1918, no repayment in advance may be made nor can the loan be converted until that date.

If the resources prescribed by article 21 of the Royal Decree of the 22 April/4th May 1898 are insufficient for the service of the loan, the joint and several guarantees of France, Great Britain and Russia will become operative under the clauses and the conditions of the Convention concluded in Paris, the 17th/29th March 1898, between the three Powers and Greece.

The guarantee is authorized in France by the law of the 8th April 1898 and the decree of the 28th May following; in England by the law of the 1st April 1898, and in Russia by the Imperial Ratification of the Convention of March 28th/April 9th 1898.

Капиталъ и проценты сего займа освобождаются навсегда отъ всякихъ греческихъ налоговъ. Владѣлецъ сей облигаціи имѣетъ право на сумму въ девятьсотъ тридцать семь рублей пятьдесятъ копѣекъ, приносящую 2 1/2 процента годового дохода, выплачиваемаго по полугодно, 1 Апрѣля и 1 Октября н. ст. каждаго года. Симъ процентамъ присвоивается пятилѣтняя платежная давность. Погашеніе сего займа будетъ совершаться по нарицательной цѣнѣ путемъ тиражей, производимыхъ 1 Января и 1 Іюля н. ст. каждаго года, или путемъ выкупа по биржевой цѣнѣ. Первый тиражъ будетъ произведенъ 1 Января н. ст. 1903 г. Погашеннымъ облигаціямъ присвоивается тридцатилѣтняя платежная давность. До 1 Апрѣля н. ст. 1918 г. не можетъ быть приступлено ни къ досрочному выкупу, ни къ конверсіи сего займа. Въ случаѣ, если бы расходы по уплатѣ процентовъ и погашенія по займу не могли быть покрыты изъ источниковъ, предусмотрѣнныхъ § 21 Королевскаго Декрета 22 Апрѣля (4 Мая) 1898 г., совмѣстная и солидарная гарантія Россіи, Франціи и Великобританіи вступитъ въ силу согласно условіямъ конвенціи, заключенной въ Парижѣ 17 (29) Марта 1898 г. между сими тремя Державами и Греціей. Гарантія сего займа установлена: въ Россіи Высочайшей ратификаціей вышеозначенной конвенціи, послѣдовавшей 28 Марта (9 Апрѣля) 1898 г., во Франціи закономъ 8 Апрѣля н. ст. 1898 г. и декретомъ 28 Мая н. ст. 1898 г. и въ Великобританіи закономъ 1 Апрѣля н. ст. 1898 г.

Le Ministre des finances de Grèce,

Par délégation de la Banque qui a délivré le titre :

For the Governor and Company of the Bank of England,

Chief Cashier.

Authorized Cashier.

CH. CRABBE. IMP. GR. PARIS. — FOND DE GARANTIE PROCÉDÉ CH. CRABBE 67 S.G.D.G.

Illustration of a bond of the
1898 150,000,000 Francs loan
which was raised upon the
establishment of the
International Financial
Commission

Table 1a

Loans Placed Under the Control of the I.F.C. at the Time of its Establishment
(in francs)

Loan Title	Nominal Amount
The Guaranteed 5% Loan of 1833	60,000,000
The 5% 1881 Loan	120,000,000
The 5% 1884 Loan	100,000,000
The 4% 1887 Monopolies Loan	135,000,000
The 4% 1889 Rentes Loan	155,000,000
The 5% 1890 Piraeus Larissa Rail Loan	60,000,000
The 5% 1893 Funding loan	9,739,000
The 3% 1893 Salonika Constantinople Railway Loan	160,000,000
The 2.5% 1898 Guaranteed Loan	150,000,000
Total	889,739,000*

*The total value of the loans placed under the control of the I.F.C. was equal to 51% of the foreign loan capital raised by the state prior to 1893.

Table 1b

Loans Placed Under the Control of the I.F.C. Since 1898 and Prior to 1922
(in francs)

The 4% Railway Loan of 1902	56,250,000
The 5% Loan of 1914	335,074,000
Total	391,324,000*

*The total value of these loans was equal to 75% of the foreign loan capital raised by the state between 1889 and 1922.

Both Tables compiled from: D.Stephanides, Foreign capital inflow and its economic and political consequences, (Salonika, 1930), pp.179-183,200-205.

Assisting the government to raise new loans, the I.F.C. increased its presence in Greek affairs. However, this was far from being its major objective. The Commission defined its primary raison d'etre as being the maximization of its income in order that it be in a position to redeem at an early date the loans under its supervision. Two prerequisites were necessary for the I.F.C. to maximize its income. First, for the yield of the revenues under its authority to increase as far as possible. This it achieved by introducing administrative reforms. Second, for the drachma to appreciate.[15] Through these two means, the surplus revenues accruing to the I.F.C. grew. (By surplus revenues is meant the amount that remained from the assigned revenues after provision was made for the service of the debt.) According to the treaty, the surplus revenues were distributed as follows: 18% was to be deducted to cover I.F.C. administrative costs. Of the remainder, 40% was to be returned to the government and 60% retained by the I.F.C. The latter used half of this income on the sinking fund of the loans under its control and the half for paying to the bondholders a rate of interest higher than that specified upon the coupons of the 'old' gold loans.[16]

The I.F.C. was able to operate from day one and throughout the years under a high margin of safety. (Table 2). As a result it enjoyed ample surplus revenues. Notably, in 1899 its income amounted to 48,000,000 drs. while the debt charge was 34,000,000 drs.[17]

Table 2

Year	(I) I.F.C. Income(1) (In £)	(II) Debt charge (In £)	(I) as a % of (II)
1898(2)	48,000,000	34,000,000	71
1918	3,489,020	2,149,190	61.5
1920	5,797,942	2,818,771	49
1922	2,589,028	2,818,771	58

(1)This figure has been estimated after deducting the costs and profits accruing to the company that was placed in charge of collecting the revenues.
(2)The figures of (I) and (II) for 1898 only, are given in drs.

Compiled from: Athens Stock Exchange, Stock Exchange Yearbook for 1932, (Athens, 1933), pp.52-53; Also, M.F.A./H.A.: 1923/L.N/D/2: File 42: memorandum titled: "The economic situation of Greece".

Given the nature of the relationship between the I.F.C. and the Greek government, conflict was surprisingly muted. The government was remarkably less antagonistic in reality than its public position indicated. But, the I.F.C. never became popular and criticism of it was vocal. It stood as a symbol of Greece's military humiliation by the Turks in 1897 and a constant reminder of the politico- economic dependence of the country.[18] Its principal critics commented most unfavourably on the restrictive monetary policy instigated by the I.F.C. between 1898 and 1910. It was argued that this deflation negatively influenced the rate of economic growth and the general performance of the Greek economy.[19]

In 1921, supervision became less international. The Powers represented on the I.F.C. were reduced to three as Russia, Austria and Germany withdrew. From then on, I.F.C. policy was literally controlled by Britain which by this time held the largest percentage of the Greek foreign debt.[20] One final comment in the way of comparison, for Greece was not unique in experiencing 'international' supervision. The foreign control established over Greece was heavier than the Ottoman Public Debt Administration which was set up in 1881.[21] No rescheduling agreement was made for the existing debt and although at the time 17% of the foreign debt was in Greek hands no Greek representative was appointed on the I.F.C.[22]

2.2. The 20th Century Legacy and 'Destabilization'

During the four years prior to the opening of the period under study, Greece experienced a 'new' type of foreign intervention. This was the use of economic coercion by the Allies in order to influence political and military developments in Greece.[23] There were two seminal events. The Paris Agreement of February 10 1918 and the financial embargo imposed in November 1920. Greece joined WWI late because of domestic politics. It declared war on the Central Powers in June 1917. However, full participation in the war was only secured in February 1918 with the signing of the so called Paris Agreement by which the Allies agreed to provide Greece with food supplies and military equipment.[24] Moreover, the government would have the right to draw 850,000,000 French francs (i.e. roughly £34,000,000) from the Treasuries of Britain, France and the U.S.A.[25] For the duration of the war the government would be allowed to draw drafts only if balances of the Greek Treasury and the N.B.G. held abroad fell below the sum of 100 million gold drs. However, six months after the declaration of peace the government would have unlimited access to these credits.

Issued at 100% and bearing interest at only 5%, this arrangement was one of the cheapest loans the Greek government had contracted up to that point.[26] Moreover, no specific government revenues were attached to the loan.[27] Had this loan been provided in full, it would have been the largest loan to be concluded by the Greek government prior to WWII and would have entailed a doubling of the country's foreign public debt.[28] However, neither was the case. As a result of the financial embargo imposed in November 1920, only 28% of the promised amount was actually granted. (See Table 3 below).

Table 3

Country	(I) Book Credits Promised	(II) Book Credits Drawn	(II) as a % of (I)
Britain	£ 12,000,000	£ 6,500,000	54%
France	300,000,000 francs	-	0%
U.S.A.	$ 50,000,000	$15,000,000	30%
Total	850,000,000 francs	236,000,000 francs	28%

Source: For the actual drafts drawn from the U.S.A. and British Treasuries and for the fact that no French drafts were made because the French had requested that the Greeks abstain for the time being so as to protect the Franc., see: N.B.G./H.A.: X Loans, A' Public Loans, File 129, titled: Recognition by the allied governments of the 750,000,000 franc loan and the additional 100,000,000 fr. of 1918 (1918-1921): note prepared by concerning the 1918 Paris Agreement, December 1920. Also, *Ελεύθερον Βήμα*, June 3 1926.

An important repercussion of this 'stunted' loan was that Greek ability to raise capital on the international capital market was limited. In addition, the three Powers were given a 'novel' form of supervising Greece. Clause 4 of the Paris Agreement stipulated that until the redemption of the war credits in full "no new security could be used for an external loan without the assent of the Governments of the U.S.A., France and Great Britain."[29] This clause was not prompted by a desire to enslave Greece financially on a permanent basis. If anything, the Allies were interested in being repaid as soon as possible. However, the result hightened anti-Allied sentiment in that prior to 1928 every time the government wanted to raise a foreign loan it was under the obligation to ask the permission of the three Powers. (Britain in 1927 upon signing a war debt agreement with Greece waived its right to veto new foreign loans of the Greek government and the U.S.A. followed in 1928.)[30]

The story of the post- November 1920 financial embargo was as follows: King Constantine had kept Greece 'officially' neutral in WWI. However, in June 1917 Venizelos with the help of the Allied naval blockade forced the 'pro-German' King to hand the throne to his second son Alexander who was considered acceptable to the British.[31] Alexander suddenly died on October 12 1920 and the Populist party that won the elections of November 1 1920 was intent on orchestrating the return of Constantine. In mid November 1920 the governments of Britain, France and Italy, announced that in the event of Constantine's return to the throne,[32] they would cut off all financial assistance to Greece and would no longer consider themselves bound by the Treaty of Sèvres. (This Treaty had been favourable to Greece regarding its presence in Asia Minor.)[33] The Populists ignored the allied threat and a plebiscite was held on November 22, which was overwhelmingly in favour of Constantine. Three days later Britain, France and Italy declared that they could no longer continue granting financial assistance to Greece. The U.S.A. joined this financial embargo.[34]

Credits that had not already been drawn by the government under the Paris Agreement were blocked. (See again Table 3 above) This move had negative repercussions on monetary stability. The National Bank of Greece, being under the impression that the Allies after the war would provide no less than the 850,000,000 francs, wrote this sum in their accounts and during 1918 and 1919 issued against it the equivalent amount in drachmae-i.e. 825,000,000 drs.[35] As a result, the total money supply of Greece almost doubled within the span of one year. This sudden increase in circulation would have been of a temporary nature had the embargo of November 1920 not occurred. For, according to the Paris Agreement, every time the N.B.G. drew a draft from the Treasuries of the U.S.A., Britain and France, the equivalent amount in drachmae would be withdrawn from circulation. That is, by the time Greece had drawn the full 825,000,000 drs. issued for its war needs, her circulation would have decreased by this same amount.

In reality, however, the monetary circulation of Greece remained permanently 'inflated' because of the financial blockade. The N.B.G. succeeded in making drafts on only 28% of the 850,000,000 francs loan. Thus, only 231,000,000 drs. (out of a total of 825,000,000 drs. issued) were withdrawn from circulation. This was the first time since the imposition of international financial control in 1898 that Greece had deviated from the principle of having its banknotes covered almost completely by gold or foreign reserves. Whereas in December 1919 the metallic reserve (plus other cash items and balances abroad) as a percentage of the notes in circulation fluctuated between 87 and 101% , approximately one year after the imposition of the embargo it stood at 12%! (See Table 4 below) It is ironic that France and Britain as members of the I.F.C. had since 1898 forced the Greek government to pursue a restrictive monetary policy.

Following the imposition of the embargo, the monetary policy of the government changed dramatically. The N.B.G. no longer adhered to the Law of Control of 1898. It began -without asking for the permission of the I.F.C.- to print great quantities of uncovered notes to meet the needs of the Greek government in connection with the Asia Minor military campaign.[36] As a consequence the position of the I.F.C. as supervisor over Greek monetary policy was undermined. Between 1920 and 1922, the cost of living index doubled (see Table 5) and the drachma lost 4/5 of its exchange value. (For the collapse in the exchange see Book I, Section III, Phase One).

Table 4

Metallic Reserve, Other Cash Items and Balances Abroad Disposable as a % of Notes in Circulation

December 1913	111%
June 1917	95%
1919	87-101%
December 1920	22%
December 1921	12%
April 1922	18%
End December 1923	9%

Compiled from: D.Nikoletopoulos and P.Anagnostopoulos, The Banknotes of Greece from 1828 until the Present Day, (Athens,1979), p.103. Also, L.N.A./Sir Arthur Salter's Papers: S114/Documents re loan request from Greece, document titled: 'Memorandum on Greek Economic and Financial Position', May 22 1923.

Table 5

Cost of Living Index 1914=100

1914	100
1917	266
1918	372
1919	322
1920	351
1921	393
1922	632
1923	1,213
1924	1,271
1925	1,455
1926	1,673
1927	1,843
1928	1,929

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens, 1930), p.32.

In retrospect, it can be argued that had the Paris credits been granted in full and had the inflow of foreign capital in general not been arrested as a result of the financial embargo it is unlikely that Athens would have resorted to the printing machine.[37] The contemporary economic literature in Greece held the blockade as a scapegoat for all of the economic ills plaguing public finance during the early twenties.[38]

Three final comments. First, although Greece's formal supervisors admitted that the fall of the exchange value of the drachma was linked to the financial boycott imposed in November 1920,[39] this did not prevent them from attacking the government's unorthodox monetary policy. Second, with the imposition of the financial embargo it became for all practical purposes impossible for Greece to raise a loan in the City, France or the U.S.A.[40] King Constantine was eventually forced to abdicate in September 1922-not by the ex-Allies, but by the anti-monarchic military committee which seized power immediately after the Asia Minor debacle. Nevertheless, the embargo was not lifted prior to December 1924 because Britain wanted to pressure the revolutionary government from abolishing the monarchy and retaining territorial claims in Asia Minor. Third, the end result of clause 4 of the Paris Agreement and the embargo was to enhance the perennial anti-western sentiments among the population. Among Greeks of all political colour there was a feeling that Greece had been betrayed by her friends and deserted midway through the Asia Minor campaign. This bitterness remained alive during the interwar period.

Chronological Summary of Book I

August 1922:	The Greek army is ousted from Asia Minor by the troops of Kemal. Approximately 1,267,000 refugees flee into Greece. The net population increase is 13%.
January 1923:	The government tries on its own and without success to raise loan in the City for the refugees.
February 1923:	Greece makes a formal request to the League of Nations for an international loan of £10,000,000 (net) to be raised for the settlement of the refugees.
March, June 1923:	Greece tries on its own to raise a loan in France for the refugees.
July 24, 1923:	Greece signs a Peace Treaty with Turkey.
September 1923:	Greece signs with the League of Nations a Protocol in Geneva which provides for the immediate creation of a Refugee Settlement Commission and the eventual flotation of a £6,000,000 (net) loan.
November 1923:	The League appointed Refugee Settlement Commission is established.
December 1924:	The £12,300,000 (nominal value) First Refugee Loan is floated under the auspices of the League of Nations.
January 1925:	The British government reverts to the pre world war I practice of assigning a special representative (Roussin) to sit on the I.F.C.
February 1925:	The N.B.G. requests permission from the I.F.C. to increase the supply of notes by 600,000,000 drs.
March 1925:	The N.B.G. prints 400,000,000 inspite of I.F.C. disapproval.
Spring 1925:	The government opens a legal battle against the R.S.C.
July 1925:	Roussin prepares a study in which he argues that it is possible for the drachma to be stabilized at the rate of 300 drs. to the £ sterling.
August 1925:	The N.B.G. approaches Hambros and the Bank of England and proposes to raise on the open market a £5,000,000 supplementary refugee loan.
September 1925:	The London *Times* under the instigation of Roussin writes an article wherein the continuous depreciation of the drachma is attributed to the credit policy pursued by the N.B.G. An intense debate is fired off in Greece.
October 1925:	A military episode occurs along the Graeco-Bulgarian frontiers. Greece 'invades' Bulgarian territory and the The League of Nations intervenes.
December 1925:	The R.S.C. sounds out the League of Nations regarding the possibility of a new loan for £4,000,000. Concurrently Pangalos, the Greek dictator, tries to raise a domestic refugee loan which would not place its funds under the R.S.C.
January 1926:	Pangalos tries to raise on the open market a £10,000,000 foreign loan to be spent on the refugees without League supervision.
March 1926:	Roussin proposes that stabilization is feasible if: i) the N.B.G. set up an emission caisse to be placed under the control of the I.F.C., and ii) the Bank of England reinforce the reserves of the N.B.G. through the provision of credits. Suggested rate of stabilization : 275 drs. to the £ sterling. The government rejects the idea of an I.F.C. supervised stabilization plan, and the Bank of England stalls in responding.
June 1926:	The Bank of England proposes to the Greek government that if Greece settled its war debt it would be willing to open a credit of £ 2-3,000,000 for the purpose of stabilizing the drachma.
June 1926:	The Financial Committee meets and makes a preliminary examination of Greek finances regarding the possibility of a combined stabilization refugee loan.
July 1926:	Greece concludes a £1,000,000 loan in Sweden purportedly for the refugees. In return for this sum the match monopoly is ceded to Swedish interests.
December 6, 1926:	Coalition government is formed.

January 27, 1927:	The Committee of Economic Experts set up in December by the coalition for the purpose of proposing measures for the improvements of the country's finances presents its report to the ministry of finance.
January - March 1927:	Diomedes visits London and requests from the Bank of England that it grant credits for the stabilization of the drachma.
April 6, 1927:	Greek war debt agreement signed with Britain.
May 1927:	The secretariat of the League of Nations send experts to Athens to carry out an investigation concerning the state of Greek finances.
June 1, 1927:	The National Assembly votes tax increases proposed by Kafandaris.
June 8-14, 1927:	The Financial Committee of the League occupies itself with the subject of Greek finances within the context of the flotation of a supplementary Greek refugee loan.
June 14, 1927:	The Financial Committee leaves the way open for the government to make an application for a reconstruction cum supplementary refugee loan.
July-September 1927:	The Bank of England, The Financial Committee of the League and the National Bank of Greece work out the details with respect to the creation of an independent Central Bank.
August 17, 1927:	The populist party withdraws its support of the coalition government disagreeing with the removal of the issuing privilege from the National Bank of Greece.
August 25, 1927:	The National Assembly votes in favour of the governments economic policy program. It gives permission to the government to sign a Stabilization Protocol with the League of Nations.
September 15, 1927:	The Geneva Protocol for the stabilization of the drachma, and the flotation of a reconstruction loan is signed.
September 22, 1927:	The General Assembly of the League of Nations votes - approves the Geneva Protocol.
October 28, 1927:	The National Bank of Greece signs a contract with the government wherein it agrees to resign from its issuing privilege.
November 25, 1927:	The Geneva Protocol is ratified in the Greek National Assembly. (See laws: 3423, and 3424).
December 6, 1927:	The government signs a war debt agreement with the U.S.A.
December 8, 1927:	The governments of Greece and France sign an agreement for the solution of the war debt issue by international arbitration.
January 31, 1928:	The £9,000,000 Stabilization Loan is floated.
May 12, 1928	Legal decree is issued which specifies the drachma's consistency in gold. The drachma is tied to the pound and the parity rate is specified at £1=375 drs.
May 14, 1928:	The Bank of Greece begins to operate.
January 1932:	The government asks from the Financial Committee and the British government that they arrange for : i) the provision of a £12,500,000 loan so that the public works may continue; and ii) the suspension of the amortization payments on the foreign and internal floating debt for a period of five years. Venizelos visits Rome, London, and Paris in an effort to raise this loan.
February 1932:	The Financial Committee sends a research committee to Greece.
March 15, 1932:	The party leaders meet and decide that Greece should remain on the gold standard.
March 29, 1932:	The Financial Committee submits a report to the Council of the League, and proposes that a $10,000,000 be raised and that Greece be allowed to suspend part of the service of its loans.
April 11, 1932:	The Council discusses Greece's request.s
April 14, 1932:	The Council declares that it rejects all Greek requests except the suspension of amortization payments.

April 25, 1932:	The government presents to the National Assembly a law proposal for the departure from the gold standard.
April 26, 1932:	The National Assembly votes law 5422 whereby Greece departs from the gold exchange standard.
May 5, 1932:	Law 5456 is put into practice, and Greece suspends for an indefinite period the service of the internal and external loans of the Greek state.

References

1. These terms relating to the nature of power are coined in: S.Strange, "What about International Relations?", in S.Strange (ed), *op.cit.*, pp.190-192.

2. For the fact that political considerations played an important part in foreign lending in general during the twenties, see: A.Fishlow, *op.cit.*, p.128.

3. Eichengreen, *op.cit.*, p.6.

4. Psalidopoulos states that no prominent Greek economist studied in Britain. See: M. Psalidopoulos, <u>Η Κρίση του 1929 και οι Ελληνες Οικονομολόγοι - Συμβολή στην Ιστορία της Οικονομικής Σκέψης στην Ελλάδα του Μεσοπολέμου</u>, (The Crisis of 1929 and the Greek Economists - A contribution to the history of Greek Economic thought of the interwar period), (Athens, 1989), p.480. For the banking versus currency school debate, see: (eds) M.B.Foster, R. Rodgers, <u>Money and Banking</u>, (New York, third edition, 1947), pp.176-179.

5. For the 1897 war, its origins and aftermath, see: J.Campbell and P.Sherrard, *op.cit.*, pp.105-107.

6. The Foreign Office documents on the establishment of the I.F.C. refer to Italy as a "Power". Whether one can call Italy a Power before 1914 is debatable.

7. A.Kalliavas, "Ο Διεθνής Οικονομικός Ελεγχος της Ελλάδος και τα Αποτελέσματα Αυτού", (The Foreign Control of Greece and its Results), *Bulletin de la Chambre de Commerce et d' Industrie d' Athenes*, November 1929, p.333.

8. The loan was used as follows: 92,000,000 francs went towards paying the indemnity due to the Porte; 2,300,000 francs went for covering damages done by the Greek forces during the war; and the remaining amount of about 32,000,000 francs went towards the elimination of the floating debt; about 13,000,000 francs went for covering the deficit of 1897 and the payments due to the holders of the existing gold debt. Source: FO371/10765/C1851/358/19, document titled: "Memorandum respecting the International Financial Commission at Athens", January 1925?-In particular see: Appendix 3, 'Greek Law of Control', article 10.

9. FO371/15963/C123498, document titled: "The Greek Public Debt and The International Financial Commission" written by Roussin, July 4 1932. Regarding the default of 1893, let it be noted that it entailed the suspension of amortization payments and the payment of only 30% of the interest due on the post 1881 loans. See: <u>Economic Yearbook of Greece for 1929</u>, *op.cit.*, p.254.

10. The drachma had lost 33% of its value in relation to the gold drachma. Source: Bank of Greece, *op.cit.*, p.25.

11. According to the law of Control: no fiduciary issue "might be ordered or authorised by the Government beyond such as may take place to meet the needs of trade within the limits fixed or to be fixed by the statutes of the present and future banks of issue".

12. The 'Greek Law of Control' -i.e. the legal document which described the functions assigned to the I.F.C.- also required the government to obtain the assent of the I.F.C. in order to issue more than 10,000,000 drs. in Treasury bonds. See: articles 29 and 30 of the Law of Control. Also, same source as reference 9 above.

13. For a description of the I.F.C. -its establishment and functions, see: Bloudanis, *op.cit.*, pp.112-114.

14. The two loans raised between 1898 and 1922 without I.F.C. supervision were the 5% 20,000,000 francs national defence loan of 1907 and the 4% 110,000,000 francs loan of 1910. Source: FO371/10765/C1851/358/19, Memorandum respecting the International Financial Commission at Athens, January 1925(?).

15. Once parity was attained the Greeks passed the Valaoritis law in 1910 which allowed the N.B.G. to print banknotes to be used exclusively for the purchase of gold and foreign exchange. Under this new framework the monetary system functioned smoothly for some nine years. For a description of the Valaoritis law, see: K.Varvaresos, "Η Νομισματική Σταθεροποίησις και Τραπεζική Μεταρρύθμισις εν Ελλάδι" (Monetary Stabilization and the Banking Reform in Greece), in *Οικονομικός Ταχυδρόμος*, June 10 and 17 1928.

16. The 'old' gold loans were the loans raised between 1881 and 1896. Possibly, this improvement on the yield of the old gold loans was designed to maintain the market for the bonds and support Greek credit.

17. FO371/15963/C123498, Memorandum prepared by Roussin, titled: 'The Greek Public Debt and the International Financial Commission', July 4 1932. See also, W.H.Wynne, <u>State Insolvency and Foreign Bondholders</u>, (New Haven, 1951), Vol. II, pp.335-348.

18. A document reflecting the criticism voiced in Greece at the time against the I.F.C. and which is of particular interest because it contains the suggestion that the foreign debt be repaid in drachmae. Source: N.B.G./H.A., X Loans, A'Public Loans, File 180, Public Finance: Report prepared by the Greek Committee of Experts, February 1927.

19. X.Zolotas, Νομισματικά και Συναλλαγματικά Φαινόμενα εν Ελλάδι: 1910-1927, (Monetary and Foreign Exchange Phenomena in Greece: 1910-1927), (Athens, 1928), Vol.A., p.85.

20: Already by 1914 46% of the foreign debt was of British origin. Source: Bloudanis, *op.cit.*, p.114.

21. In addition to the Ottoman Empire, Egypt also acquired Foreign Debt Administrations in the 19th century. See: C.Issawi, The Economic History of the Middle East, 1800-1914, (Chicago, 1975), pp.430-431.

22. The Control established over Greece was also of a diplomatic type. Source: Kalliavas, *op.cit.*, p.360.

23. Economic coercion via a financial blockade had been first imposed on Greece in the 19th century. In 1848, the British government placed an embargo on loans to Greece in order to dissuade Greece from pursuing her irredentist plans. The other major capital exporting countries followed the example of Britain and Greece was unable for a thirty year period to raise loans on the international capital market.

24. For the fact that assistance was posed as a sine qua non for Greece's participation in the war and the arguments raised by Venizelos at the War Council on December 1 1917 at Versailles, see: A. Diomedes, Τα Οικονομικά της Ελλάδος Προ και Μετά την 1ην Νοεμβρίου 1920, (The Economics of Greece Before and After November 1 1920), (Athens, 1922), pp.5-8. Also, *The New York Times*, November 12 1922. Also, N.B.G./H.A., File 126, Venizelos to N.B.G., November 21 1917. Also, B.M./V.A., File 43, Venizelos to Capps, December 29 1922.

25. The financial agreement reached stipulated that Britain, France and the U.S.A. would open book credits for Greece of up to the equivalent of 250,000,000 French francs each. (i.e the total to be supplied would be up to 750,000,000 francs). In May 1919, a supplementary agreement was signed which extended the upper plafond from 750,000,000 to 850,000,000. According to the supplementary agreement 50,000,000 was to be granted by France and 50,000,000 by Britain. For the terms of the supplementary agreement and the original Paris Agreement, see: *The Times*, March 10, 1922. Also, U.S.A./NAT/MA5/S.D./M443/41/868.40, Industrial Matters, Crosby to Dulles, September 26 1925.

26. The cheapness of the loan is confirmed by the fact that: i) the real rate of interest was roughly equal to the contemporaneous discount rate of the Bank of England, and ii) its redemption period was only 15 years. The only other foreign loans to have a lower real rate of interest were the 1898 loan (2.5% real interest rate) and the 1910 loan (4.7% real rate of interest).

27. Up to 1918 the only instances in which the government had been able to raise a foreign loan without assigning government revenues as security were in 1833 with the 60,000,000 gold franc independence loan and in 1898 with the 'secured' 170,000,000 gold franc loan. In both instances the political circumstances were exceptional and the loans were guaranteed by Britain, France and Russia. Let it be noted that the 1918 book credit loan had a redemption period of 15 years.

28. The foreign state debt stood at £34,000,000 in 1914 and between 1914 and the book credit agreement for £34,000,000 no other loan had been concluded. For size of debt in 1914, see: Bloudanis, *op.cit.*, p.114. Also, it should be noted that a total of 728,500,000 drs. was issued in 1918 and 96,500,000 drs. was issued in 1919.

29. See clause 4 of the Paris Agreement of February 1918, *The Times*, March 10 1922.

30. The government upon signing a war debt agreement with the U.S.A. in December 1926 resigned from its demand for the remaining book credits. Though it was not clearly stated it can be presumed that the U.S.A., also waived its right to veto Greek loans.

31. For the naval blockade imposed by the Allies between December 1916 and June 1917 for those ports that fell under the jurisdiction of the government of King Constantine and the provisional government set up in Salonika by the pro-Allies Venizelos, see: Campbell, op.cit, p.121. Also, H.E. Dewing, Greece and the Great Powers, (Washington, 1924), p.52.

32. Venizelos and the British wanted Prince George to step on the throne and not King Constantine, see: *Eθvos*, November 8 1920.

33. According to the Treaty of Sevres, which was signed on August 10 1920, Smyrna and her surroundings though remaining under Ottoman rule were to be administered by Greece for five years after which a local Parliament would be entitled to request their incorporation into Greece. Source: (ed.) E.Levine and Y.Shimoni, Political Dictionary of the Middle East in the 20th Century, (Jerusalem, 1972), p.344. For more on the strategic reasons why France and to a lesser extent Britain modified their policy towards the military expedition of Greece in Asia Minor in the end of 1920, see: History of the Greek Nation, Vol.IE, pp.150-154. Also, Markezinis, *op.cit.*, Vol.3., pp.41-50.

34. A.F.Frangoulis, La Grece et la Crise Mondiale, (Paris, 1926), Vol.2, pp.173,175. Also, for the participation of the U.S.A., see: L.N.A./Sir Arthur Salters papers: S114/Documents re loan request from Greece, document titled: 'Memorandum on Greek Economic and Financial Position', May 22 1923. Let it also be noted that two weeks after the plebiscite Greece was also expelled from the executive Council of the league of Nations. Also, for the fact that Lord Curzon before resorting to this solution under the pressure of the French had advocated a policy of giving recognition to Constantine under certain conditions- which effectively amounted to complete tutelage, see: *Εθνος*, November 8 1920.

35. See reference 25 above. Also, it should be noted that the N.B.G. had also issued 175,000,000 drs in banknotes for the needs of the French army in Macedonia under part ii of the Paris Agreement. Thus, after the financial embargo the total amount of notes that had been issued under the Paris Agreement stood at 1,000,000,000 drs., and the amount that permanently remained in circulation was around 769,000,000 drs.

36. According to article 30 of the Law of Control the government was not allowed to increase the 'forced' currency without the permission of the I.F.C. Between December 1920 and September 1922 the N.B.G. printed 1,700,000,000 drs. without cover and the note circulation doubled.

37. The government was not happy with the idea that it was effectively provoking the I.F.C. Apparently, the Greek Prime Minister in 1921 was considering establishing a new bank of issue through which to print banknotes in the new provinces owing to the fact that they fell outside the jurisdiction of the I.F.C. as they had not yet been united with Greece at the time of the establishment of the I.F.C. Source: M.F.A./H.A., File A/16 1921: Discussions of Gounaris with Lord Granville in London, March 18 1921.

38. This was true for the liberal (i.e. pro-Allies) economists such as Diomedes, as well as the proroyalists such as Papadakis, and the radicals such as Kofinas. Sources: B.G./T.A., Document 98/3: Memo of Diomedes towards the British Treasury, February 24 1926. Also, G.Kofinas, Το Οικονομικόν Πρόβλημα και αι Συμμαχικαί Πιστώσεις, (The Economic Problem and the Allied Credits), (Athens, 1926), p.10. Great Economic Encyclopedia, Vol. 10, Ελλάς (Hellas), "Πολεμικά Χρέη και επανορθώσεις" (War debts and reparations), (Athens, 1934), p.606. Markezinis, *op.cit.*, p.48. Also, *Εθνικός Κήρυκας*, Η Ιστορία της Ελλάδος, Αι Αγορεύσεις του Ελληνικού Κοινοβουλίου 1909-1956, Περίοδος Β', (The History of Greece, Speeches of the Members of the Greek Parliament 1909-1950, Period B,) Vol. six, pp.327,363-364,384.

39. H.M.S.O., Documents on British Foreign Policy 1919-1939, First Series, Vol. XVII, Greece and Turkey, January 1, 1921-September 2, 1922, (England, 1970), pp.525-526. The following quotation further corroborates this point: "Owing to the decision of the Powers to stop all credits, matters went from bad to worse, throughout the year 1921, and in the winter Greece was found with a very exhausted exchequer, while the drachma had sunk officially to about 98, and on the open market it had been as low as 120". Source: H.M.S.O., Department of Overseas Trade (E.G.D. Ramlins), Report on the Industrial and Economic Situation in Greece to April 1922, (London, 1922).

40. The embargo was temporarily lifted in the City in December 1921 when the British Treasury allowed the Greek government to assign security to a loan to be raised in Britain up to a total not exceeding £15,000,000 in order to finance the Asia Minor Campaign. However, this loan was never actually raised as the Greek National Assembly blocked it because in exchange Greece would have to drop its claim for the remaining book credits Britain owed under the Paris 1918 Agreement. See: B.M./V.A., File 44, Copy of Gounaris Horne Agreement December 22 1921.

SECTION I

REFUGEES, FINANCE AND THE LEAGUE OF NATIONS (1922-1924): THE FIRST REFUGEE LOAN*

1. Introduction

1.1. The First Refugee Loan and Foreign Finance

The first foreign loan raised by the government after World War I was the Refugee Loan of 1924.1 Its significance for the small Greek economy can hardly be exaggerated. At í12,300,000 it was the largest loan of the interwar years and was equivalent to over half of the annual government expenditure in the early twenties.2 At a stroke the annual service of the public foreign debt increased by 40%. (See Table 1)

With this loan a new phase opened for Greece. The League of Nations appeared on the scene and the share of government revenues under the control of the I.F.C. almost doubled. Furthermore, Hambros an old player in the Greek financial arena saw its position enhanced and the Bank of England began to establish itself as the formulator of Greek monetary policy.

* A short version of this chapter has appeared in I. Pepelasis Minoglou, "*Οι Διαπραγματεύσεις για το Προσφυγικό Δάνειο*" (Negotiations for the Refugee Loan) in Th. Veremis - G.Goulimi, (eds.), Ελευθέριος Βενιζέλος Κοινωνία - Οικονομία - Πολιτική Στην Εποχή Του (Eleftherios Venizelos Society - Economy - Politics During his Time), (Athens, 1989).

Table 1

Comparative Magnitude of the First Refugee Loan in Terms of the Contemporaneous Greek Economic Activity

Nominal value of loan:	£12,300,000
Annual Exports (1922-1924):	£15,533,333
Annual emigrant remittances (1922-1924):	£ 6,733,333
Annual Government expenditure (1922-1924):	£19,760,000
Annual Service of foreign debt for 1922:	£ 2,300,000
Annual Service of the First Refugee Loan:	£ 922,612

Compiled from: G. Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens,1930), pp.199,274-275. Also, Economic Yearbook of Greece for 1939, (Athens,1940), pp.203-204. Also, N.B.G/H.A, X Loans, A' Public Loans, Refugee Loan: Prospectus, titled: "Greek Government 7% Refugee Loan of 1924".

The existing literature has concentrated upon the direct economic impact of the League inspired Refugee settlement scheme on the agricultural development of Greece.[3] Surprisingly, the unique circumstances under which the loan was raised have received scant attention. The questions of why and how the League entered Greece have been dealt with in a superficial manner. Perhaps the complexity of the politico-economic data are responsible for this oversight. In the contemporary literature, the League was presented as a cynical institution bent on subjugating Greece to its whims. Recent research has been of an apologetic-revisionist nature and has presented the League as a benevolent international organization eager to hand out assistance to a weak Greece.[4] The truth is far more complicated. Contemporaries were too emotionally involved to see the situation objectively. Later scholarship is methodologically flawed: the rich archival sources have been consulted in a partial manner and the significance of foreign imposition and political factors have been downplayed.

This thesis analyses the loan from a comprehensive (and hence new) perspective. It is based on new archival sources (The Bank of England Archive, the Tsouderos Archive at the Bank of Greece, the Diomedes Archive at the N.B.G., The Foreign Office 371 series). Moreover, for the first time this loan is examined, not as an isolated instance of foreign capital penetration, but within the general framework of Greek government foreign borrowing and the other League of Nations loans. This new data supports several distinct arguments: First, that the League of Nations was not the international - supernational - body that it was supposed to be. The evidence indicates that its role in Greece was heavily compromised by the British financial establishment (i.e. the Bank of England and the Treasury). The 1924 Refugee Loan was a highly political affair. Britain used its power to withhold funds in order to obstruct the government from abolishing the monarchy and pursuing a policy of rearmament.

Second, the League was brought into Greece reluctantly. It is notable that the Greek government would have prefered to raise funds on its own account and resorted to the international organization only as a last resort. Equally significant, the documents show that the League was not eager to get involved in Greece. There is no evidence for a premeditated policy of subjection. However, once it decided to implement a Greek scheme, the League required that Greece should conform with the new postwar financial and security order. In pressing for the 'respect of the peace treaties' Sir Arthur Salter expected that the Greek government would come to rely for the country's military security on the Covenant of the League of Nations instead of rearmament.[5]

Third, at this juncture the Bank of England adopted a dual role. It emerged simultaneously as an active formulator and a passive reflector of British hegemony in Greece. On the one hand it sought to integrate the National Bank of Greece and the drachma into the international banking and financial network based on the gold exchange standard directed from Threadneedle street. On the other, it rendered services to private British entrepreneurial interests whilst also serving as a spokesman for the British government regarding issues of a poltical and strategic nature with respect to Greece. However, there was not one monolithic British approach: the Treasury may have held identical opinions with the Bank of England, but apparently the Board of Trade did not agree with either.

Fourth, though it has been argued that the proceeds of the loan were handled by an independent body because the Greek state lacked the organizational capacity to carry out a settlement scheme, it is apparent that the most important reason for this arrangement was that the League of Nations, the Bank of England, the underwriters and subscribors to the loan wanted to ensure that the government would not divert the funds to military purposes.

Nevertheless it must be noted that the Refugee Loan set a pattern regarding the behaviour of the government for the twenties. Namely, it began for the first time to resort to the international financial community consistently for productive purposes and not to finance wars or budget deficits. These views and the arguments that follow differ substantially from hypotheses advanced in the traditional and revisionist literature.

Table 2

Nominal Value of the Loans Raised and the Funds Spent
from the Budget for the Refugees: 1922-1932

The Budget	£ 6,734,428
Internal Loans•	£21,649,422
External Loans	£15,400,000
Total	£43,783,850

•The internal loans raised went almost exclusively for the compen sation of the refugees. Only 1.5% went for productive purposes (in this case meaning housing).

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp.494-581.

1.2. The Problem Posed

The economic and human dimensions of the circumstances under which, in August 1922, the Asia Minor campaign ended and the refugees fled into Greece has been described in detail.[6] Greece, a war exhausted country of some 5,000,000 inhabitants, in total had by December 1924, received 1,266,849 refugees of whom 860,000 were in a state of dire poverty.[7] Around 900,000 had arrived prior to January 1923 at which point in time an agreement was signed between Turkey and Greece for the forced exchange of populations.[8] Apart from humanitarian relief, a general plan of settlement was imperative in order to integrate into the socio-economic life of mainland Greece the refugees who on the whole, prior to being uprooted, had been affluent city merchants, artisans and professionals. The Greek state was overwhelmed. It lacked both the funds and the administrative machinery necessary to face this challenge . In September 1922 a group of radical officers under the instigation of Colonel Nicolaos Plastiras overthrew the government. The pro-German King Constantine was blamed for Greece's defeat. He was driven into exile and forced to abdicate in favour of his son Prince George. In November 1922, six of the ex-Kings close associates were executed. In protest to this act Britain immediately recalled her minister from Athens. A deep and mutual mistrust set in between the revolutionary government and Britain.[9]

The former strongly believed that the Greek army had not been defeated in Asia Minor but had been betrayed by the allies. Whereas Britain was pert ubed as a matter of principle by the revolution's unconstitutional character and its twin goals which were the abolition of the monarchy and rearmament. Regarding the second objective it should be noted that the leaders of the revolution were not unreasonable considering that the country had suffered great military losses during its ten year war effort in the Balkans and Asia Minor. It was also threatened by a much stronger Yugoslavia, a hostile Bulgaria and a Turkey that was expanding its navy. However, it is equally clear that the revolutionary and subsequent governments harboured irridentism and had not come to terms with the Asia Minor defeat.[10] Thus, the issue of what Greece's legitimate defence requirements were, became a thorny question which poisoned the relations between Britain and Greece for a number of years.

Under the circumstances, the financial embargo that the ex-allies had imposed on Greece in November 1920 was extended after 1922. As a result, from November 1920 to December 1924 Greece remained financially and politically isolated. It was in this negative climate that the government searched for international funds in order to provide for the refugees. Therefore it is not suprising that this loan was associated with issues of a political nature.

1.3. Conflicts Among the International and Domestic Actors

The major international actors involved in the negotiations of this loan were Montagu Norman (Bank of England), Sir Arthur Salter Dr. Fridtjof Nansen and Colonel Procter (League of Nations), Hans Morgenthau (president of the R.S.C.). On the Greek side those in charge were Alexandros Diomedes (National Bank of Greece), and the politician Andreas Michalakopoulos. Conflicts developed not only between the international and the domestic players but also within each of the two factions.

Regarding relations amongst the foreign groups, what is of special interest is the antithesis that developed between Hans Morgenthau and the British. An American, Moergenthau had been appointed as head of the R.S.C. in recognition of the role of the American Philanthropic

Societies in the immediate relief of the refugees. He was resented by the British Legation in Athens and Norman because he was getting all the credit for the refugee scheme from the Greeks. Ironically, what was in fact 'British money' spent by the R.S.C. came to be called the 'Morgenthau fund' (See below 4.) Morgenthau's popularity was largely related to the fact that he was "on the best of terms with the members of the revolutionary government", favoured the establishment of the republic, and was openly critical towards the British government in connection to its stance on foreign policy issues towards Greece.[11] (See below 2. for the position of British towards the revolutionary government).

Salter and Norman were the antithesis of Morganthau and the differences between them aptly reflected the positions held in the Greek arena by the U.S.A. and Britain. The former because of its political background and being a newcomer had nothing to loose by allying itself with the ascending forces of social change. However, the latter as a result of long established politico-economic ties with Greece was basically interested in protecting the monarchy and enhancing its dominance in Greece. The conflict played out on a personal level between Morgenthau and the British officials in a way can be seen as an introductory phase in the 'economic warfare' that was to flare up in Greece during the twenties between the two Powers in the struggle for public works concessions.

Moving onto the domestic setting it is clear that there was no unanimity within the inner quarters of the state. Two lines of thought were manifest. On the one hand, were the realists (i.e. the N.B.G. and the politician Michalakopoulos) who were more familiar with the language of international finance. On the other hand, was Stylianos Gonatas the leader of the revolution, and the ministry of finance who were more nationalistic and less familiar with the world outside Greece. In addition, that Greek government was in a weak position. What was for the state a matter of national survival was for Britain and the world financial community a minor transaction.

2. The First Attempts of the Greek Government to Raise Loan Capital for the Refugees

Following the Asia Minor debacle, the League of Nations through its High Commission for the Russian refugees at Instabul assisted in the evacuation of the Greek refugees from Turkey.[12]

Also, it helped the Greek government to administer relief, together with the American Red Cross, the Near East Relief Organization, the All-British Appeal, and the Save the Children Fund. Financially, the heaviest burden was carried by the American Red Cross which from October 1922 to June 1923 fed daily more than 500,000 refugees.[13]

As for the government, it was spending £300,000 monthly on relief. This was a heavy burden considering that in 1922 total government expenditures amounted to only £1,600,000 a month.[14] In January 1923, the government discontinued its bread ration and the two drachmas (296,7 drachmae to the £sterling) daily allowance granted to those refugees in need. In addition, the government asked the governor of the National Bank of Greece, Alexandros Diomedes to arrange for a public flotation in the City of London. This attempt to raise a loan, which has been totally neglected by other scholars, shows that the government did not rush to the League for funds and prefered to raise a loan on its own account.

Hambros, Morgan and Westminster were contacted by Diomedes. All three, who were familiar players in the Greek field, refused to help. However, an English group of financiers close to the British Treasury agreed to raise £5,000,000. This was an expensive proposition. These bankers -whose names are not mentioned in the archives- demanded a 10% commission, an issue price of 70 and a 6% nominal rate of interest.[15] In addition, they also wanted the British government to guarantee the prompt service of the loan. The Treasury for its part declared that it would be willing to act in the capacity of guarantor under the conditions that the loan be spent exclusively on the refugees and that Greece withdraw her claim to the £5,000,000 credits Britain had promised Greece under the 1918 Paris Agreement. Clearly, the Treasury mistakenly thought that the Greek government was desperate for funds and would renounce its right to these credits.[16] But the government turned down the offer. It was not willing to foresake the 'rights' of the state to the British credits in return for a loan that would have a real value of only £3,500,000. Moreover, the government was under the impression that if Greece accepted the British proposal, a bad precedent would be set for France and the U.S.A., who also owed Greece more than £15,000,000 according to the Paris Agreement of 1918.[17]

This was not the best of times for the government to go loan hunting. Officially Greece was still at war and the revolutionary committee had failed to secure recognition. Reflecting the poor credit rating of Greece abroad, Greek bonds in London had fallen markedly during 1921 and 1922. These were years of crisis for the international capital market, but Greek securities were hit more severely than those of the stronger countries such as Britain and Belgium. Before 1921 the market value of Greek securities had been comparable to the market price of British consols. But, whereas the latter fell to £45, the price of Greek bonds quoted on the London stock exchange fell to £20.[18] (For prices of Greek bonds see below Table 3).

Dismayed by this first attempt to raise a loan in the City, the government turned at once to the League. At the end of January 1923, Venizelos and Michalakopoulos (two prominent politicians close to the revolution but at the same time respected abroad) were sent to Geneva to discuss with the General Secretary of the League of Nations, Sir Eric Drummond, the proposal originally advanced by the High Commissioner for Russian refugees at Istanbul, in November 1922.[19] This was that the more powerful members of the League of Nations give their guarantee to the government for a large international loan. Austria had already floated a loan under similar terms. But Drummond made it absolutely clear that the League could not repeat the Austrian 'formula' as Greece was not on the verge of economic, social and political collapse.[20] Niemeyer seconded Drummond. A few days later he wrote: "There is no question of a loan by the League or by the British Government to Greece. Whether Greece raises a loan it will depend entirely on her international credit..."[21]

The absense of a support within the higher echelons of the League of Nations forced the government to go ahead with Drummond's subsequent suggestion that it aquire from the Financial Committee a formal statement that the guarantees offered were sufficient for the flotation of a loan. The logic behind such a move being to make it easier for the government to raise an international loan in Britain and the U.S.A. It was in this frame of mind that in February 1923, Michalakopoulos made an official request to the Council for an international loan of £10,000,000 to be raised with the 'moral support' of the League. In order to resolve fears in certain of the circles of the League that the government wanted to use the loan as a cover to finance its irridentist aspirations, Michalakopoulos suggested that the proceeds of the loan be handled by an autonomous organization that would administer funds to settle the reffugees.

Apparently, this proposal was made without discussing it in advance with the colonels who headed the government. This was to create problems.[22]

The Council ordered the preparation of a financial and technical report on the feasibility of a Greek scheme.[23] But, the government was in a hurry and one month later, in March 1923, Michalakopoulos searched out the possibility of raising a £10,000,000 loan for the refugees in France without the involvment of the League of Nations. As in London two months earlier, the discussions bore no results. The French bankers demanded a commission of 10%, and a guarantee that most of the loan would be spent in France. However, the real stumbling block was the requirement that Greece first hold elections and provide a detailed plan for the settlement of the refugees. The revolutionary government was not in a position to satisfy these conditions.[24] But this did not inhibit the colonels making another approach to France in June 1923.[25] Thus, for a period of six months, from January to June 1923, the Greek government tried to establish an alternative to a League loan. The government seemed to be playing a double game: pretending to want a League loan while striving for a better alternative. (It would be interesting to find out whether the other countries that raised League loans went through such phases). Another feature of this six month period was the lack of a united front within the state administration. Dissent was expressed on two issues. First, presuming that there were financiers eager to invest in Greece, the head of the government, the radical colonel Stylianos Gonatas, and the minister of Finance argued that the loan should amount to £15-20,000,000. This would provide for the settlement of the refugees, the consolidation of the floating debt, and cover expenditure on new public works.[26] Secondly, they argued that the creation of an autonomous organization for the settlement of the refugees would undermine the sovereignty of the state. When Michalakopoulos had put forward this propoition to the League in February, the Greek ministry of Foreign Affairs had been informed in advance and had raised no objection. Apparently, however it did not notify the revolutionary committee. Interestingly, Michalakopoulos ignored the complaints of the revolutionary committee when the latter was eventually appraised of his actions.[27] The regime was recently installed and confusion was to be expected. Nevertheless, the incident demonstrates the inability of the revolutionary government to coordinate its activities.[28]

Table 3

Market Prices of Greek Government £100 in the City: 1920-1924

Loan Title	1920	1921	1922	1923	1924
5% 1881	37	33	20	26,5	43
lowest	59	47	41	49	57,5
highest					
5% 1884					
lowest	37	33	20	25,5	44
highest	59	46,5	40,5	49	57,7
4% 1887					
lowest	30	30,25	20	23	37
highest	50	39	39	46	48,25
4% 1889					
lowest	31	27	14	20	35
highest	51	38	35,5	41	45,7
5% 1890					
lowest	38	33	21,5	24	46
highest	56	45,5	41	45,5	57
4% 1902					
lowest	33	32,5	30	28,5	36
highest	57,5	39	40,25	43,5	56,7
5% 1907					
lowest	42	25	27	56	
highest	48	50,5	57	73,5	
4% 1910					
lowest	28	28	16	20,4	34
highest	47	34	37	37	54,5
5% 1914					
lowest	37	33	20,25	32	45
highest	67	44	48,25	55	66

Source: Secretary of the Share and Loan Department, The Stock Exchange Official Intelligence 1921-1927, (London, 1928).

The inability to arrange for a loan began to have negative repercussions. At the end of June 1923 it became obvious that time was running out. The two major voluntary organizations - the American Red Cross and the Near East Relief- ended relief operations. The U.S. government let it be known that had the League devised by this point a serious settlement scheme, the American Red Cross would not have withdrawn altogether but under the circumstances it feared that the refugee problem would drag on for years.[29]

The Americans proved overpessimistic. The Council of the League in its Session of July finally discussed the subject of a Greek loan. The Financial Committee by this time had finally managed to prepare a report inspite of its initial difficulties in collecting data on the Greek public debt and budget.[30] League experts exposed in detail the weak position and structural imbalances of the Greek economy and state finances.[31] (See Tables 4 and 5 below) Not surprisingly the Council declared that for Greece to float a loan it would be necessary to curtail state expenditure and curb the printing of money. In addition, the army would have to be demobilized and a Peace

Treaty with Turkey would have to be signed. The last two prerequisites were related to the real fear that Greece might resume hostilities. At the end of May rumours were spreading abroad that final preparations for an offensive were being made in Greece.[32]

Table 4

External and Internal Structural Imbalances: 1920-1924

Year	Exports as % of Imports	Ordinary Revenues as % of Budget Expenditure	War Ministries as % of Budget Expenditure
1920	31.5	37	53
1921	53.5	34	59
1922	78.5	49	57
1923	42	66	40
1924	40	84	33

Table 5

Financial Indicators: 1920-1924

Year	Exchange Value Drachmae to £	Circulation of Banknotes•	Cost of Living Index 1914=100
1920	34,25	1,508,366	351
1921	70,90	2,161,183	393
1922	166,50	3,149,446	632
1923	296,67	4,681,200	1,213
1924	247,35	4,865,924	1,271

• in drs.

Both Tables compiled from: G. Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens, 1930), pp.32,199,275. Also, G. Haritakis (ed.), Economic Yearbook for 1930, (Athens,1931), p.251. Also, X. Zolotas, Monetary and Currency phenomena in Greece 1910-1927, Vol. A, Athens 1928, p.225.

A resolution was passed by the Council on July 4 1923. It stated that Greece could raise a loan but no definitive date was set. In addition, although it was recognized that "a suitable refugee scheme needed £10,000,000" and that "the securities of the Greek government were amply sufficient", the Council recommended that the loan should not exceed £6,000,000. Two reasons were given. Firstly, because it feared that political turmoil might eventually depress the level of the government receipts pledged as security. Secondly, it did not believe that the international capital market would be able to absorb a large Greek loan.[33] The weakest point of the resolution in the eyes of the government and the public at large was that a League appointed Commission would handle the proceeds of the loan. The Council maintained that such a measure was necessary in order to assure the international community that funds furnished would not be diverted to military purchases. However, in Greece this move was interpreted as an act of economic aggression.[34] Twenty days after the Council's resolution (i.e. on July 24 1923), Greece signed a Peace Treaty with Turkey. This prompted the League officials to give their moral support for a loan. At the end of July 1923 the governor of the National Bank of Greece, under government orders, visited Norman in London in the hope that it would be possible to arrange for an immediate flotation of a Refugee Loan in the City. However, the reception Diomedes recieved was cool. Norman was not impressed with the fact that Greece had signed a Peace Treaty. (At this point Greece and Britain had still not resumed diplomatic relations).[35] Norman scotched the idea that a loan might be floated in the near future. He made it clear that apart from the preconditions set by the League (i.e. the signing of a Peace Treaty, demobilization and monetary cum fiscal restraint), it would be necessary for "a constitutional and recognized government to have established itself in the confidence of the Greek people and of foreign nations".[36] Effectively, the final word for the loan lay not with the League of Nations, nor with the private banking sector of the City, but with Norman. However, the governor of the Bank of England did not completely close the door to Greece. In order to enable the League to begin a settlement scheme he agreed to provide an advance. (See below 4.)

3. The September 1923 Geneva Protocol

From the outset, the League of Nations had specified that it could not commit itself to a major scheme in Greece if the Lausanne Conference was not concluded. (A major reason being that the lands on which Greece was going to settle the refugees would be offered as guarantee for a loan and the government would need to obtain a firm title to it.)[37] As already mentioned, on July 24 1923 the Conference ended with the signing of a Peace Treaty between Greece and Turkey thereby removing an important technical obstacle. Throughout the summer of 1923 League officials worked hard preparing the legal framework for the financing and the creation of the autonomous body that would undertake the settlement of the refugees. During the September session of the Council, a Protocol was passed relating to the eventual issue of a

£6,000,000 loan and the immediate establishment of the Refugee Settlement Commission (R.S.C.) under the strict supervision of the Council.[38]

The Protocol precluded the possiblility of an immediate flotation on the grounds that political conditions in Greece "had not become sufficiently stable". The obligations that the government would have to undertake in order to secure the 'moral support' of the League were outlined in detail. These terms were identical to those set in July by the Finance Committee, namely that:

I) Greek banks would be obliged to subscribe to at least £1,000,000 of the loan (i.e. the net inflow of foreign capital would be at best £5,000,000).

II) The I.F.C. was to be placed in charge of the service of the loan.[39]

III) The League enlarged the orbit of the I.F.C in order to ensure that the Government would not have access to the international capital market in future for the purpose of rearamament. Namely, it stipulated that if the Greek government intended to pledge state revenues for a foreign loan for any reasons other than carrying out Greece's obligations stemming from the Treaties of Peace or for improving the financial condition of the country, it would be obliged to seek the consent of the I.F.C.

IV) The government would immediately attempt to balance the budget.

By imposing the last two terms, the League hoped that the government would be forced to curtail its irridentist aspirations, balance the budget and achieve monetary stabilization. A stable exchange rate for the drachma not only secured that the service of the foreign loans would be prompt but also contributed to the effort of the League of Nations and the Bank of England to 'stabilize' the international financial system. This Protocol was amended in September 1924.[40] (For details see below 5.)

4. The Bank of England Advances

Three £1,000,000 advances were provided by the Bank of England and the N.B.G. to enable the R.S.C. to start work 13 months before the flotation of the First Refugee Loan. These advances carried interest at 5% and were granted exclusively in pound sterling.[41] The third and last advance is of limited interest. It was granted solely by the National Bank of Greece. Although it may have made the government more dependent on the bank, it was a straightforward commercial banking transaction that did not interfere with the political or financial affairs of the state.[42] However, the opposite was the case with the first two advances which were granted jointly by the Bank of England and the National Bank of Greece. In these two instances there was overt political and financial intervention in the affairs of the state by the Bank of England. The National Bank of Greece was merely a passive partner forced to participate in these two ventures by the Bank of England because the latter did not want to carry alone the risk of lending money to the Greek government.

The initiative for the first advance was taken by Norman on July 28 1923. On that date, he informed Diomedes that in order to allow the refugee settlement plan to be put into effect by the League without delay, the Bank of England would be willing to furnish a short term advance of £1,000,000. Norman made it clear that the provision of this credit would be contingent upon the creation by the League of an autonomous body that would undertake the settlement of the refugees.

In the absence of any other viable alternative, the Greek minister of Foreign Affairs on August 4 1923 advised Diomedes to accept without objection Norman's offer. At this juncture, the governor of the Bank of England took advantage of the weak financial position of the government in order to pursue issues of a wider significance. Norman began by requiring the government to work towards political and military stabilization. The government was asked to assure the Bank of England formally that it would immediately demobilize the whole army and that arrangements would be made to hold proper elections in the autumn. Apparently, the Lausanne Treaty was not seen by the British as an adequate assurance that Greece would keep peace as long as the army was mobilized. Furthermore, during the currency of the advance Athens was asked by Norman not to contract any additional external obligation. This condition aimed at preventing a grand rearmament programme and so precipitating the depreciation of the drachma.[43]

More specifically in order to avert further depreciation of the drachma the Bank of England specified that no new bank notes should be printed by the Greek Treasury. A final issue of 750,000,000 drs. was permitted only under the condition that the International Financial

Commission would give its consent. With this last stipulation the Bank of England aimed simultaneously at reestablishing the authority of the Commission over Greek monetary affairs. As indicated above since November 1920 the government had refused to ask for I.F.C. permission prior to new note issues.

Table 6

Advances Provided to the R.S.C.

First advance	November 1923	Bank of England £ 750,000 National Bank of Greece £ 250,000 **Total £ 1,000,000**
Second advance	May 1924	Bank of England £ 750,000 National Bank of Greece £ 250,000 **Total £ 1,000,000**
Third advance	June 1924	National Bank of Greece £ 1,000,000

This confirms again that Norman's goal was to coax the Greek bank of issue (i.e the National Bank of Greece) to accept principles propounded in London for the post-War financial reconstruction of Europe. For this reason the N.B.G. was asked to accept the principle of cooperation with other central banks.[44] Moreover, Norman wanted to ensure that the Bank of England would not make a financial loss on the deal. In an ironic way, Greece was called to accept onerous terms and foreign interference in its affairs in return for receiving money that essentially was hers. The Greek government had for years held a gold deposit at the Bank of England valued at £2,000,000. In addition, 300,000 unissued bonds of the 5% loan of 1914 were handed over to the Bank of England as security for the advance. These bonds had a face value of £6,000,000 and an estimated market value of approximately £3,000,000.[45]

During the first days of November 1923 the creation of the R.S.C. was formally announced and the National Bank of Greece deposited its quota for the advance. Moreover, the demobilization of the army, which incidentally had begun on July 29 -i.e. the day after Norman posed the terms for the advance- was almost finished.[46] However, although these preconditions were satisfied, the advance was withheld. The putch of October 21 and the ensuing dismissal of

1,284 promonarchist officers from the army by the revolutionary committee was widely interpreted as an indication that the country was nowhere near to attaining political normalization.[47] Norman did not openly refer to the political factor. Instead, he declared that the £1,000,000 credit would not be released because he had information that Greece was planning to resort to external finance to fund purchases of battleships from French and German shipyards. He claimed that such an action would constitute a breach of contract.[48]

Diomedes tried to reassure Norman by explaining that the information which had come to his attention concerned rumours put out by agents of a French and German shipyard that had received orders from Greece for the construction of battleships before World war I. Diomedes was correct in pointing out that the government was not interested in this 'obsolete' prewar order. However, it was planning to embark on a five year comprehensive naval rehauling programme (to begin in January 1924) which was to include the building of sixteen submarines, ten destroyers and one battleship. Unquestionably, this scheme was large considering that at the moment the country's navy consisted only of four old destroyers and one old battleship, but was commensurate with Greek defence requirements.[49]

The government had already started to make contacts regarding this programme and was discussing the possibility of placing orders for submarines in France. Apparently, the French government had offered to release the blocked credits of the Paris Agreement of February 1918 in order to secure orders for all sixteen submarines. This move on the part of the French infuriated Niemeyer and Foreign Office officials because the 1918 Paris Agreement expressly stated that book credits could run for only three years after the end of hostilities and that they could be spent only "with the consent and under the direction" of the three allies.[50]

This episode highlights the inter-British conflicts. Apparently, the Admiralty and the Board of Trade (which was keen on finding ways to combat unemployment at home) wanted British firms to secure a contract not only for the repairs but also the rest of the naval programme.[51] But, the British Treasury and Foreign Office wanted to induce Greece to abandon its ambitious naval programme regardless of whether British firms would be involved. As Niemeyer put it bluntly: "The Greek scheme for the construction of armaments will close the door on Refugee Loans".[52]

Eventually, the Board of Trade view was later espoused by the Foreign Office also - but only after the government agreed to prune the programme down to the mere essentials. (see below, p. 82)

The Bank of England was assumed to be independent vis a vis the British government. But one cannot fail to ask if in this instance Norman acted as a 'spokesman' of the Foreign Office. For he released the advance immediately upon receiving from the minister of Finance a formal statement to the effect that Greece had every intention to remain at peace, all military expenditures would be met from ordinary revenues and would concern reequipment and repairs but not rearmament. It was specified that Greece at the moment would merely repair its four naval destroyers and that White and Vickers would undertake this task.[53] Interestingly, the timing of the advance suggests that other factors were also at work. Namely, the revolutionary government on November 21 announced that elections for the National Assembly would be held on December 16 1924. This decision was welcomed by the British as they were naive in hoping that once Greece returned to parliamentary rule the debate over the abolition of the monarchy would subside. Perhaps one can make the hypothesis that the threat of not providing the advance influenced -albeit marginally- the government in taking this decision to hold elections.

At 5% the interest rate charged for this first advance was comparatively low. At the time, the average for the official discount rate was 7.5% in Greece and 4% in England.[54] Nevertheless, in Greece the terms were considered "so onerous as to rob the Bank of England's deed half of its merit".[55] With this advance, the R.S.C. began operations immediately. The Greeks kept their word and elections were held as planned in December 1923. But, contrary to the expectation of the British, the issue of the monarchy flared up instead of dying out. A few days after the revolutionary committee transferred power to an elected National Assembly, King George "accepted the advise of Gonatas that he should travel abroad until the future of the monarchy was decided." As no party 'commanded a majority' in Parliament a renewed period of instability appeared to be on the horizon.[56] The first Premier to be appointed by the National Assembly was Venizelos. Although in weak health, from the British point of view he was considered a stabilizing factor in the Greek politics because he was against a policy of heavy rearmament and was not a staunch antimonarchist. The establishment of a legitimate government led to a complete restoration of diplomatic relations with Britain.[57]

A few days after Venizelos stepped into office in January 1924, Diomedes asked Norman if it would be possible to reopen negotiations for the Refugee Loan. The governor of the Bank of England again refused to go ahead stressing political rather than economic or financial factors. He expressed concern about the future of the monarchy in Greece and stated that it would be necessary first, that "some permanent political settlement of the domestic affairs of Greece" take place. Other obstacles to the flotation of a loan as perceived by Norman were the problems between Greek and Muslim refugees and the unsettled situation in Central Europe.[58]

In the meanwhile, the R.S.C. was spending its funds at a fast pace. Thus, about two months later, in early March 1924, Morgenthau, the president of the R.S.C. suggested to Norman that a second advance should be granted.[59] By this point of time the situation in Greece on the financial front had improved. The external value of the drachma had begun to appear more settled.[60] Nevertheless, inspite these improvements, Morgenthau had to go through substantial armtwisting in order to convince Norman that a second advance would be a 'sound investment of British funds'. The political concurrence was unfortunate. The British government were unhappy because the radical politician Alexandros Papanastassiou who had just become Prime Minister was contemplating to have the establishment of the Republic officially announced by the National Assembly prior to the holding of a plebiscite.[61] Indeed, the prospects for a second advance seemed to vanish as on March 25 -the National holiday of independence- the National Assembly formally declared Greece a Republic. What is more, Papanastassiou wanted to undermine the autonomy of the R.S.C.[62]

The plebiscite held on April 13 1924 was a turning point. The result was 69.95% in favour of the establishment of a Republic. Though this was not exactly a landslide victory for the antimonarchists, the Republic was an irreversible fact.[63] In view of this development, the British realized that there were limits to their 'political control' over Greece. Norman could no longer withhold the granting of a second advance. In early May the League had decided to go ahead definitely with the flotation of the loan in October or November if the political and economic situation did not in the meanwhile deteriorate.[64] In addition, by this point the financial indicators had shown signs of steady improvement on a number of fronts: the external value of the drachma had steadily risen, the National Bank had managed within a few weeks to roughly double its foreign exchange and gold reserve, and there were signs that there might even be a surplus in the budget for the current fiscal year.[65]

But, as was the case with the first advance, Norman continued to be suspicious regarding the ulterior motives of the Greeks. Thus, in May 1924 before releasing these new funds, he required from the government a formal declaration to the effect that all Greek political parties had accepted as a matter of principle the autonomy of the R.S.C., that the money received from the Bank of England would in no manner contribute directly or indirectly to increased military expenditure, that the Peace Treaties would be respected, and that a strictly defensive military strategy would be followed.[66]

With one exception the financial terms posed for the second advance were identical with those of the first. The Bank of England, in an attempt to display a more compromising attitude towards Greece's demands for reequipment, relaxed the restrictions posed on the government concerning foreign borrowing. The government was allowed -during the term of the advance- to make orders for military reequipment from abroad (**presumably Britain**) on condition that they were absolutely necessary for the **upkeep** of the Greek army and navy, that they would be paid for out of the ordinary receipts of the Greek Treasury and that no state revenues would be pledged.[67]

It should be noted that a new attitude towards the ordering of new military equipment was adopted also by the Foreign Office. In part this was because it feared that if it remained adamant Greece would be totally exposed vis a vis a fastly growing Turkish navy. More importantly, by this point the Foreign Office had aligned itself with the Board of Trade view that it was in the British national interest to secure as many military orders as possible.[68] In April 1924, the Greek government had ordered two submarines from the French firm Schneider. In the tender held it construed that the British were uncompetitive -Schneider undertook the order at £368,000. This was 30% below the lowest price offered by British competitions.[69] Thus, the Foreign Office decided to attain by 'fiat' what the market had failed to establish through the interplay of the price mechanism. **Prior to the granting of the second advance, the Greek minister of Foreign Affairs, was pressed by the Foreign Office to recommend to the Greek military that all further naval contracts should be offered to British companies.**[70]

5. Amendments to the September 1923 Geneva Protocol

When in May 1924, the Greek government was informed of the League's decision to float a loan, it asked the Council to amend the Geneva Protocol and the organic statutes of the R.S.C. The proposed alterations aimed to:

i) allow the real value of the loan to be increased from £6,000,000 to £10,000,000
ii) permit the government to raise loans for public works in the future;
iii) facilitate the procedure of settling refugees;
iv) enlarge the board of the R.S.C. from four to six members, to include two government ministers and
v) widen the scope of the R.S.C. so as to involve it in the state directed land reform programme and indemnification scheme.

In July the Council met and accepted the first three amendments.(See below Table 7) However, it turned down the last two proposed changes. The League did not want the R.S.C. to get involved in land reform and matters of indemnification. These issues were complicated and according to the League opened ground for conflicts with the government. Moreover, the League of Nations feared that if it undertook joint activities with the state, and if more Greek Members were brought onto the Commission, it would undermine the autonomy of the R.S.C. It was no secret that the government had recently been pressed hard by fifty five refugee deputies "to obtain control of the funds at the disposal of the R.S.C."[71]

Given the 'hostile' environment under which the R.S.C. was labouring, the Council went one step further. In order to preclude the possibility that Greece might dissolve the Commission it required the government to place at the disposal of the R.S.C. the funds necessary to enable it to carry out its work until the international loan was issued and to guarantee the entire loan. Hence the R.S.C. would remain whether or not a League loan was issued. This was the first project of the kind to be undertaken by the League of Nations and as a result it was anxious to complete successfully its mission in Greece.

Table 7

Modifications to the September 1923 Geneva Protocol

Technical Modifications for the Speeding up of the Pace of Settlement
i. The Greek government was allowed to hand over land to the R.S.C. without necessarily providing a clear title to the land beforehand so that refugee settlers could attain de jure ownership.
ii. The R.S.C. was given the freedom to engage in work that was not in itself of a directly productive character (such as to build houses or schools).
Financial Modifications
i. The government was allowed to secure new foreign loans on its share of surplus revenues without asking for the consent of the I.F.C. under the condition that these loans would be raised for productive purposes or for carrying out its obligations under the Peace Treaties (meaning the prompt repayment of the Greek share in the Ottoman debt).[1]
ii. The maximum value of the loan was raised from £6,000,000 to £10,000,000. In order to accommodate the increase in the size of the loan the government agreed to include in the revenues assigned for security,[2] the tobacco and stamp duties in the new provinces of Greece,[3] and the duty on alcohol in the whole of Greece. It also agreed to increase the participation of the Greek banks in the flotation of the loan from 16% of the nominal amount to 25%.[4]

[1]According to the 1923 Protocol I.F.C. permission was not necessary for loans destined for the purpose of meeting its external obligations or of obtaining loans destined exclusively to improve the financial position of Greece.

[2]The securities granted under the 1923 Geneva Protocol were: 1) A first charge on the income of the R.S.C. and the 1,250,000 acres the government had undertaken to provide to the R.S.C. for the settlement of the refugees. This land was estimated in 1924 to have a value of £13,000,000. (Unfortunately, other later estimations are not available). 2) A first charge on the salt, match, playing cards and cigarette paper monopolies of new Greece, plus the customs of the Chania, Candia, Samos, Chios, Mitylene, and Syra Ports. And, 3) A first charge on any surplus revenues which accrued to the I.F.C. after deduction of the amounts required for the service of all the National loans that had been assigned up to then to the I.F.C.

[3]Greece's new provinces were: The northern part of Epirus,Macedonia, Thrace, and Crete. With the exception of Thrace which was annexed under the treaties of Sevres and Neuilly in 1919, the other areas were annexed in the 1912-1913 the Balkan wars. Source: D.G.Koussoulas, Modern Greece Profile of a Nation, (New York, 1974), p.102.

[4]The Financial Committee had wanted the participation of the Greek banks to be at least 30% because it feared that the German League loan that was to be issued in October would make it difficult to place more than 70% on the international capital market. B.G./T.A.: Document 18/3 Tsouderos to Ministry of Finance August 1924; and Document 18/1 Diomedes to Ministry of Finance August 5 1924.

Compiled from: B.G./T.A., Document 18/56: Annex to the Report of the Financial Committee on the Modifications to the Protocol of September 29th, 1923 Relating to the Settlement of Greek Refugees, Articles I and II in the Protocol and Articles XII and XV in the Statutes. For the financial alterations see: Articles IV, V, and VI in the Protocol.

Modifications to the Geneva Protocol and the Organic Statutes of the R.S.C. were incorporated during the fifth Assembly of the Council in September 1924. The new Protocol was also more specific about the timing of the loan, stating that due the "the improvement in the stability of Greek political conditions; the improved economic position; and the maintenance of a steady value of the Greek currency" the time had arrived to place the refugee settlement scheme "upon a definite financial basis by the issue of a long-term loan".[72]

6. Preparations for the Loan

Preparations for flotation had begun in May 1924, when Norman 'forced' the Greek government to accept that the British tranche would be assigned to Hambros. Hambros was closely connected with Norman, had a lengthy presence in Greece, and viewed the First Refugee Loan as an opportunity to strengthen its position there.[73] The total nominal issue of £12,300,000 was divided amongst Hambros (who took £7,500,000) the National Bank of Greece (£2,500,000) and Speyer & Co. ($10,000,000 or £2,300,000).

Flotation conditions pertaining to the Greek tranche aptly reflect the undisputed leadership of the N.B.G. in the Greek banking system.[74] It underwrote almost 60% of the tranche. At the same time, it organized 14 other banks to tender for the loan.(See below Table 8) Regarding the American tranche, Hambros first contacted Guaranty Trust Co. However negotiations floundered. Guaranty was not interested in taking more than £2,500,000 and requested a 30 year redemption period plus an underwriting guarantee by the Bank of England for the U.S. tranche. Next Hambros approached Speyer and Co., who only agreed to participate after what were described as difficult negotiations.[75]

Norman had originally favoured a more international flotation. He envisaged a multinational syndicate headed by Hambros. Norman's interest in the affair is manifested in the support he gave to Gordon Leith in negotiations with the American underwriters and in other contacts he made, unsuccessfully pressing the French and Italian ministers of Finance to arrange for portions of the loan to be placed in their countries.[76] The French most probably refused because they were anti-League of Nations. They feared an enhancement of British financial imperialism in Greece. The Italians abstained because of an earlier misunderstanding with France regarding the participation of Italian nationals in a recent French issue of Treasury bonds. The government of Italy put out a circular which had unintentionally created the impression that it wanted to debar Italian nationals from subscribing to French flotations.[77]

Table 8

Syndicate Set Up by N.B.G. for the Underwriting of the Greek Tranche

N.B.G.	£1,455,000
Bank of Athens	£ 250,000
Anatolian Bank	£ 150,000
Commercial Bank of Greece	£ 150.000
Greek Bank of Values	£ 100,000
Ionian Bank	£ 50,000
Bank of Thessaly	£ 50,000
Central Bank of Greece	£ 50,000
Bank of Greek Commercial Credit	£ 50,000
Popular Bank	£ 40,000
Bank of Industry	£ 40,000
Bank of National Economy	£ 35,000
General Bank of Greece	£ 30,000
Bank of Chios	£ 25,000
American Express Company	£ 25,000
Total of banks other than N.B.G.	£1,045,000
GRAND TOTAL	£2,500,000

Compiled from: N.B.G./H.A., X Loans, A' Public loans, File 147, titled: Public loans 1924, document titled: 7% National Refugee Loan of 1924 (£12.300.000)-Greek Tranche.

Table 9

Government Loans Issued Under the Auspices of the League of Nations During the Years 1922-1924 and the German Dawes Loan of 1924

Year	Country	Issue Prices•	Nominal	Real	Redemption
1922	Austria	80%	6 %	8.95%	20 years
1924	Hungary	88%	7.5%	9.25%	20 years
1924	Germany	92%	7 %	7.60%	25 years
1924	Greece	88%	7 %	8.25%	40 years

•By issue price we mean the price at which bonds were offered to the public, and not the net produce of these loans. The expenses for these flotations (e.g. Bank commissions and stamp duty) are not taken into consideration.

Source: N.B.G./H.A.: Public loans, File 145: Diomedes to National Bank, November 11 1924.

Table 10

Nominal rate of interest of the First Refugee Loan:	7 %
Real rate of interest of the First Refugee Loan:	7.9 %•
Discount rate in Greece during 1924:	7.5 %
Discount rate in Britain in 1924:	4 %
Average real interest rate of foreign (nonCommonwealth) Government flotations in the City during 1924:	7.5 %
Real rate of interest of the 1902 Greek Railway Loan:	5 %
Real rate of interest of the 1907 National Defence Loan:	5.5 %
Real rate of interest of the 1910 Loan:	4.7 %
Real rate of interest of 1914 Loan:	5.7 %

•If the commissions and stamp duty are taken into account the real rate of interest was 8,7%. (That is the bank commissions, stamp dues have not been deducted).

Compiled from: D. Stephanides, Foreign capital inflow and its economic and political consequences, (Salonika, 1930), pp.201-205. Also, A. Angelopoulos, "The fiscal consequences of Greece's foreign borrowing", in *Social and Public Economics Review*, 1934, pp.159-201.

The nominal rate of interest of the First Refugee Loan was 7%; bonds were offered to the public at 88%. However, the net yield was 81% for the sterling issue and 80% for the dollar issue. So, it was more economical for Greece to float bonds in London. (Thus the £12,300,000 loan yielded a little under £10,000,000.)[78] At 8.7% the real rate of interest was comparable with that charged for other League loans issued between 1922 and 1924.(See above Table 9) Nevertheless, it was high in relation to the contemporary discount banking rate and interest charged for other foreign loans floated in the City during 1924 or previous loans contracted by Greece. (With reference to this last point it should be noted that conditions were different after WWI).(See above Table 10). Regarding the redemption period, at forty years it was the longest for a League loan.[79] However, the bankers made provision for an accumulative sinking fund of 1/2% per annum. It was also specified that 75% of the monies paid by the refugees to the R.S.C. in return for the land handed to them would go towards covering the exceptional amortization of the loan. It was expected that these payments "would be so substantial that the loan might be repaid in less than half of the prescribed forty-year period."[80] This was an unrealistic claim.

In terms of foreign dependence, the loan increased the influence of the I.F.C. over Greek public finance. Whereas in 1921 government revenues falling under the control of the I.F.C. represented only 27% of the total ordinary revenues of the government, in 1925 they amounted to 44%.[81] Finally, it must be noted that the unissued bonds that had been lodged at the Bank of England as security for the two advances furnished prior to the flotation of the loan were not 'returned' to the government. The Bank of England continued to hold them until January 1 1926 as the League and the Bank wanted to prevent the Greek government placing them on the market immediately after the issue of the First Refugee Loan. It was feared that such a move would be detrimental for the stability of the drachma and the interests of the holders of Greek government bonds in general.[82]

7. Last Minute Problems

While the preparations for the loan seemed to be running smoothly there was an unexpected development. In late September 1924, Norman suddenly announced to Diomedes that a £10,000,000 loan would be too heavy a burden for the "weak" Greek economy. Indeed, he even expressed doubts as it could be floated at all. Diomedes was astounded. If anything the financial situation of the country had improved since May 1924. Apparently, the governor of the Bank of England had no intention to cancel the loan. Instead, it seems that he wished to force the Greek government to 'cooperate' more readily on an issue of importance to private British interests. Norman linked the flotation of the loan directly to the ability of the government to solve its long standing differences with the largest British enterprise in Greece, the Lake Copais company. Reportedly the firm had suffered substantial losses.[83] In mid November 1924, Norman wrote to Diomedes: "My information as to the arrangement with lake Copais Company which has been proposed in Athens leads me to suppose that a further delay of at least three months will be necessary. I fear that in that event, the eventual issue of a Greek loan becomes far less certain than we all hoped".[84] In raising the problem of the Copais company at this juncture, Norman was obviously accepting to press the Greek government to reach a settlement favourable to the British economy. It was a typical example of financial imperialism. Once again Norman intervened in Greece's internal affairs in his capacity of 'ambassador at large' for British interests. The Foreign Office had already made repeated official representations to the government and had dictated to Salter that the Lake Copais dispute would have to be settled before the loan was floated.[85] Moreover, Hambros also intervened unofficially as it had a stake in this British firm.[86] The government finally yielded and in the beginning of December 1924 a bill was passed for arbitration. This benefited the Lake Copais company for the result of the arbitration satisfied most of its claims.[87]

In addition, the Foreign Office succeeded in settling two more outstanding issues prior to the flotation of the loan. First, the Greek government 'promised' to assign the Athens electrification concession to a consortium headed by Power and Traction which was part of the Whitehall Security Corporation which served as the economic intelligence unit of the Foreign Office. Second, the government agreed to compensate the British railway in the Smyrna-Kambassa area for services rendered during the Greek occupation of Asia Minor.[88]

8. The French Blackmail

Yet another example of the dependent status of Greece is the fact that in total four countries (the U.S.A., Britain, France and Italy) were vested with the power to cancel Greek government flotations. (See Book I, Introduction, part 2).[89] However, in the case of the First

Refugee Loan only France attempted to exploit this position to its advantage. The story was as follows. At the end of 1923 France proposed that the I.F.C. should only agree to supervise the loan on condition that existing bond holders should be compensated for the post 1920 depreciation in the drachma. The French were obliged to drop this idea because the British Treasury objected, although it agreed in principle that pressure would have to be put on the Greeks to stop them ignoring the Commission and inflating the currency.[90] The French then raised another issue. They demanded that the amortization of the Ottoman debt be given precedence over the service of the First Refugee Loan.[91] The British informed the French that their claim was unwarranted for Greece's exact share in the Ottoman debt had not yet been clearly defined and the margin of surplus revenues that would remain after the payment of the service of the First Refugee Loan was substantial.[92] The French gave in and shortly after the signing of the amendments to the Geneva Protocol in September 1924, the countries represented on the I.F.C. signed a declaration authorising the Commission to supervise the loan.[93]

French attempts to block the loan, their refusal to participate in the flotation and further antagonisms to the 1928 League Stabilization Loan, enhances the argument that in the twenties they were no longer interested in Greece as a sphere of economic activity and that they resented the expanding financial influence of the British via the League of Nations.

9. Flotation and Aftermath

The London flotation occurred between December 8 and 10 1924. To the surprise of all, especially Norman, the loan was subscribed 21 times over.[94] This was an impressive feat considering that in October 1924 the German £12,000,000 reparation (Dawes) loan had been covered 'only' 13 times.[95] Apparently, a large number of 'refugee' bonds issued by Hambros was taken up by the wealthy expatriate Greek community established in London.[96] The loan could hardly have been issued under more favourable terms for Greece. Hambros were so pleased that they offered to float in London the quota of the loan assigned to the N.B.G.[97] Success was due not only to the advantageous terms of issue but also to the active press campaign and market manipulation of old Greek bonds in the City during November.[98] Indeed, as a result of this intervention, the bonds of the 1910 loan rose temporarily from a market price of £47,5 to about £50 and those of the 1914 loan from £61 to £65.[99]

The Greek flotation went ahead as planned on December 15 and was covered 4 1/2 times.[100] This also came as a surprise because the governor of the National Bank had previously expressed grave doubts about the ability of the Athens market to absorb the issue. The Greek tranche was offered for subscription in Athens and made available to the economically dynamic Greek community of Egypt.[101] In the U.S.A. it was the first Greek loan offered for public subscription and was also oversubscribed.[102] The success of the flotation was interpreted by the Greek authorities as a sign that the loan would be followed by an easy flow of foreign and particularly British capital.[103] But, this was not to be, by early 1925 the City developed qualms about the extent to which Greece was on the right path financially and politically.

Moving to the subject of how the League refugee scheme was viewed in the National Assembly, it should be noted that it was discussed in ten sessions between February 1924 and November 1924. The autonomous character of the R.S.C. and the 'onerous' terms of the loan were criticized.[104] Nevertheless, Parliament promptly ratified the Geneva Protocol without amendments, while the loan contract was ratified by presidential decree in May 1925 some five months after the flotation of the loan. Normally loan contracts were ratified by the National Assembly prior to flotation. The local press was divided in its appraisal of the scheme. Alongside the eulogies,[105] stern criticism was made. It was insinuated that the government had 'secretly' promised Hambros first preference on all future issues. Resentment was also expressed about the fact that the stranglehold of the I.F.C. over government revenues was extended with the loan.[106]

In 1924 the terms of the loan may have looked onerous but in retrospect they offered little security. In 1932 the state defaulted and for thirty years the service of the loan was suspended. So much for the solid guarantees (the land, I.F.C. supervision and pledged state revenues). To this day the loan has not been redeemed. Ironically, in the contract it had been specified that the government, if it so wished, could have redeemed the loan after May 1 1936. However, even if the state had not defaulted in 1932 on its external obligations, an early redemption would have been precluded for the reason that the refugees refused to pay their dues arguing that the state had a moral obligation to cover in full the cost of re-settlement.[107]

£100 £100

GREEK GOVERNMENT
7% REFUGEE LOAN OF 1924.

ΕΛΛΗΝΙΚΗ ΚΥΒΕΡΝΗΣΙΣ
ΠΡΟΣΦΥΓΙΚΟΝ ΔΑΝΕΙΟΝ 7% 1924.

TWO POUNDS

Of a nominal amount of £12.300.000, of which £7.500.000 is issued in London, £2.500.000 in Athens, and the remainder in America in dollars.

Issued pursuant to the Geneva Protocol dated the 29th day of September 1923 and amending Protocol of the 19th day of September 1924 the Greek Legislative Decree dated the 13th day of October 1923 and the Acts of the Greek Parliament dated the [illegible] day of June 1924 and 24th day of October 1924.

THE GOVERNMENT OF THE REPUBLIC OF GREECE (hereinafter called the Greek Government) for value received hereby promises to pay to the bearer of this Bond the principal sum of **100** pounds sterling on the 1st day of November 1964 or on such earlier date as such principal sum shall become payable in accordance with the terms hereinafter set out and to pay interest on such principal sum from the 1st day of November 1924 at the rate of seven per cent. per annum semi-annually on the 1st day of May and the 1st day of November in each year, until such principal sum shall become payable upon presentation of the interest coupons hereto attached as they severally mature. Both the principal and interest of this Bond will be paid in sterling at the office of Hambros Bank Limited in the City of London or at the National Bank of Greece in Athens at the option of the holder free and exempt from all present or future Greek taxes and otherwise as hereinafter provided in this Bond.

This Bond is one of an issue of Bonds of the Republic of Greece known as Greek Government 7% Refugee Loan of 1924 of the aggregate principal amount of £10.000.000 of like tenor except as to denomination of which £7.500.000 are issued and payable in London and £2.500.000 in Athens forming part of the Greek Government Seven per cent. Refugee Loan of 1924. By the protocols the decree and the acts above mentioned there has been created as security for the service of the Bonds of said loan a first charge on certain revenues and surplus revenues of the Greek Government and on the property present and future of the Refugee Settlement Commission which charge is confirmed by the Greek Government by the execution hereof and is confirmed by the Refugee Settlement Commission by the certificate of said Commission hereon endorsed. For a statement of the authorization and terms of the said loan and a description of the security for the service thereof reference is hereby made to the clauses hereon endorsed and to the said certificate of the Refugee Settlement Commission, all of which are to be deemed to form part of this Bond.

As is more fully provided in the clauses endorsed hereon this Bond is subject to redemption by the operation of a cumulative sinking fund of one-half of one per cent. per annum to provide for the redemption of the entire issue at par in a period of not more than forty years. The said sinking fund is to be applied by half-yearly drawings at par and an amortization table is endorsed on this Bond. In addition to the redemption by the sinking fund, the redemption shall be further accelerated by the application thereto of capital monies appropriated by the Refugee Settlement Commission as is in the clauses endorsed hereon more fully provided. The amounts so appropriated to redemption shall be applied in redeeming Bonds by half-yearly drawings at par. On the 1st day of May 1936 and on any interest date thereafter the Greek Government has the right to increase the sinking fund or redeem the whole of the Bonds then outstanding at par plus accrued interest upon giving three calendar months' previous notice. The numbers of Bonds drawn for redemption will be advertised at least one month prior to the date of redemption in two English newspapers, in the Greek Official Gazette and two newspapers in Athens. Drawn Bonds when presented for payment must be accompanied by all unmatured coupons and in the event of any one or more coupons being absent the amount of the same will be deducted from the amount payable to the Bondholder.

In the event of any divergence between the English and Greek texts of this Bond the English text shall prevail.

In witness whereof the Government of the Republic of Greece has affixed hereto the engraved facsimile signature of the Greek Minister of Finance and has caused this Bond to be signed by the Director of the Hellenic Public Debt in his own handwriting thereunto duly authorised, and coupons for said interest bearing the engraved facsimile signature of the Greek Minister of Finance to be hereto attached.

Dated the 1st day of November 1924.

THE GOVERNMENT OF THE REPUBLIC OF GREECE.

THE MINISTER OF FINANCE, CONST. GOTZIS.

THE DIRECTOR OF THE HELLENIC PUBLIC DEBT, G. J. DROSSOPOULOS.

'Ονομαστικοῦ Κεφαλαίου 12.300.000 λιρῶν 'Αγγλίας ἐξ ὧν 7.500.000 λίραι ἐκδίδονται ἐν Λονδίνῳ, 2.500.000 λίραι ἐν 'Αθήναις, τὸ δὲ ὑπόλοιπον εἰς δολλάρια ἐν 'Αμερικῇ.

Ἐκδιδόμενον συμφώνως 1ον τῷ ἀπὸ 29ης Σεπτεμβρίου 1923 Πρωτοκόλλῳ τῆς Γενεύης, τῷ κυρωθέντι διὰ τοῦ ἀπὸ 13ης Ὀκτωβρίου 1923 Νομοθετικοῦ Διατάγματος κυρωθέντος διὰ τοῦ ἀπὸ 7ης Ἰουνίου 1924 ψηφίσματος τῆς Δ'. ἐν Ἀθήναις Ἐθνοσυνελεύσεως καὶ 2ον συμφώνως τῷ ἀπὸ 19ης Σεπτεμβρίου 1924 προσθέτῳ τῷ ὡς ἄνω Πρωτοκόλλῳ πράξει κυρωθείσῃ διὰ τοῦ ἀπὸ 24ης Ὀκτωβρίου 1924 ψηφίσματος τῆς ὡς ἄνω ἰδίας Ἐθνοσυνελεύσεως.

Ἡ Κυβέρνησις τῆς Ἑλληνικῆς Δημοκρατίας (κατωτέρω ὑπὸ τὸ ὄνομα Ἑλληνικὴ Κυβέρνησις) ὑπόσχεται διὰ τοῦ παρόντος νὰ πληρώσῃ εἰς τὸν Κομιστὴν τῆς ὁμολογίας ταύτης, δι' ἀξίαν ληφθεῖσαν, ἀφ' ἑνὸς μὲν ὡς κεφάλαιον τὸ ποσὸν τῶν **100** λιρῶν κατὰ τὴν 1ην Νοεμβρίου 1964 ἢ προγενεστέραν ταύτης χρονολογίαν, καθ' ἣν τὸ κεφάλαιον τοῦτο ἤθελε καταστῇ πληρωτέον συμφώνως πρὸς τὰ κατωτέρω ἐκτιθέμενα, ἀφ' ἑτέρου δὲ, μέχρις ὅτου τὸ κεφάλαιον τοῦτο καταστῇ πληρωτέον, νὰ πληρώνῃ τόκον ἐπ' αὐτοῦ ἀπὸ τῆς 1ης Νοεμβρίου 1924 πρὸς 7% ἐτησίως καθ' ἑξαμηνίαν τῇ 1ῃ Μαΐου καὶ τῇ 1ῃ Νοεμβρίου ἑκάστου ἔτους, ἐπὶ τῇ προσαγωγῇ τῶν προσηρτημένων τῇ παρούσῃ ὁμολογίᾳ τοκομεριδίων, ἐφ' ὅσον ταῦτα καθίστανται ληξιπρόθεσμα. Τὸ κεφάλαιον καὶ οἱ τόκοι τῆς παρούσης ὁμολογίας, ἀπηλλαγμένα παντὸς γενικοῦ ἢ εἰδικοῦ Ἑλληνικοῦ φόρου παρόντος ἢ μέλλοντος, θέλουσι πληρωθῇ εἰς λίρας παρὰ τῇ Hambros Bank Limited ἐν τῷ City τοῦ Λονδίνου ἢ παρὰ τῇ Ἐθνικῇ Τραπέζῃ τῆς Ἑλλάδος ἐν Ἀθήναις, κατ' ἐπιλογὴν τοῦ Κομιστοῦ.

Ὁ παρὼν τίτλος εἶνε μία τῶν ἐκδιδομένων ὁμολογιῶν τῆς Ἑλληνικῆς Κυβερνήσεως ὑπὸ τὸ ὄνομα "Προσφυγικὸν Δάνειον 7% 1924" συνολικοῦ κεφαλαίου 10.000.000 λιρῶν, ἐκ τῶν ὁποίων 7.500.000 λίραι ἐκδίδονται καὶ εἶνε πληρωτέαι ἐν Λονδίνῳ καὶ 2.500.000 λίραι ἐν Ἀθήναις, ἀποτελεῖ δὲ μέρος τοῦ Προσφυγικοῦ Δανείου 7% 1924. Διὰ τῶν πρωτοκόλλων, τοῦ Νομοθετικοῦ Διατάγματος καὶ τῶν ψηφισμάτων τῶν ἀνωτέρω μνημονευομένων ἐδόθη ὡς ἀσφάλεια τῆς ὑπηρεσίας τῶν ὁμολογιῶν τοῦ εἰρημένου δανείου πρώτη ὑποθήκη ἐπί τινων προσόδων καὶ πλεονασμάτων τῆς Ἑλληνικῆς Κυβερνήσεως καθὼς καὶ ἐπὶ τῆς παρούσης καὶ μελλούσης περιουσίας τῆς Ἐπιτροπῆς Ἀποκαταστάσεως Προσφύγων, τὴν ὁποίαν ὑποθήκην ἐπιβεβαιοῦσιν ἡ Ἑλληνικὴ Κυβέρνησις διὰ τῆς κατωτέρω ὑπογραφῆς καὶ ἡ Ἐπιτροπὴ Ἀποκαταστάσεως Προσφύγων [illegible]. Περὶ τῆς βεβαιώσεως τῆς ἐξουσιοδοτήσεως καὶ τῶν ὅρων τοῦ εἰρημένου δανείου ὡς καὶ τῆς λεπτομερειακῆς ἀναγραφῆς τῶν ἐγγυήσεων τῆς ὑπηρεσίας τοῦ δανείου γίνεται μνεία ἐν ταῖς διατάξεσι ταῖς ὄπισθεν τοῦ παρόντος ἐκτιθεμέναις καὶ ἐν τῇ πιστοποιήσει τῆς Ἐπιτροπῆς Ἀποκαταστάσεως Προσφύγων, ἁπάντων τούτων θεωρουμένων ὅτι ἀποτελοῦσι μέρος τῆς ὁμολογίας ταύτης.

Ὡς λεπτομερέστερον ἐκτίθεται ἐν ταῖς ὄπισθεν τῆς παρούσης διατάξεσι, ἡ ὁμολογία αὕτη ὑπόκειται εἰς ἀπόσβεσιν διὰ τοῦ συστήματος τῆς συνθέτου χρεωλυσίας ἐντὸς τὸ πολὺ 40 ἐτῶν. Ἡ ἀπόσβεσις θὰ γίνεται δι' ἑξαμηνιαίων κληρώσεων εἰς τὸ ἄρτιον, συμφώνως τῷ ὄπισθεν τῆς παρούσης χρεωλυτικῷ πίνακι. Πλὴν τῆς ὡς ἄνω τακτικῆς ἀποσβέσεως θέλει ἐνεργεῖσθαι καὶ ἔκτακτος τοιαύτη διὰ τῶν πληρωμῶν, περὶ ὧν ὄπισθεν γίνεται λεπτομερῶς μνεία, δι' ἑξαμηνιαίων κληρώσεων εἰς τὸ ἄρτιον. Κατὰ τὴν 1ην Μαΐου 1936 ὡς καὶ κατὰ πᾶσαν λῆξιν τοκομεριδίου μετὰ τὴν χρονολογίαν ταύτην ἡ Ἑλληνικὴ Κυβέρνησις ἔχει τὸ δικαίωμα νὰ αὐξήσῃ τὸ χρεωλύσιον ἢ νὰ προβῇ εἰς ὁλοσχερῆ ἀπόσβεσιν τῶν ἐν κυκλοφορίᾳ ἀνεξοφλήτων ὁμολογιῶν μετὰ τῶν δεδουλευμένων τόκων αὐτῶν, μετὰ προειδοποίησιν τριῶν μηνῶν. Οἱ ἀριθμοὶ τῶν κληρουμένων ὁμολογιῶν θέλουσι δημοσιεύεσθαι τὸ βραδύτερον ἕνα μῆνα πρὸ τῆς πρὸς ἐξόφλησιν αὐτῶν ὁρισθείσης ἡμέρας εἰς δύο Ἀγγλικὰς ἐφημερίδας, εἰς τὴν Ἐφημερίδα τῆς Ἑλληνικῆς Κυβερνήσεως καὶ εἰς δύο ἐφημερίδας τῶν Ἀθηνῶν. Αἱ προσαγόμεναι πρὸς ἐξόφλησιν κληρωθεῖσαι ὁμολογίαι δέον νὰ φέρωσιν ἐπ' αὐτῶν πάντα τὰ μὴ λήξαντα τοκομερίδια, καὶ ἐν ἐναντίᾳ περιπτώσει θέλει ἐκπίπτεσθαι ἐκ τῆς ἀξίας τῆς ὁμολογίας ἡ τιμὴ τῶν ἐλλειπόντων τοκομεριδίων.

Ἐν περιπτώσει διαφορᾶς μεταξὺ Ἀγγλικοῦ καὶ Ἑλληνικοῦ κειμένου θέλει ἰσχύει τὸ Ἀγγλικὸν κείμενον.

Πρὸς βεβαίωσιν τῶν ἀνωτέρω ἐτέθησαν, κατ' ἐξουσιοδότησιν τῆς Ἑλληνικῆς Κυβερνήσεως, ἐπὶ τῆς ὁμολογίας ταύτης αἱ ὑπογραφαὶ τοῦ μὲν Ὑπουργοῦ τῶν Οἰκονομικῶν κεχαραγμένη πανομοιοτύπως, ἰδιόχειρος δὲ τοῦ Διευθυντοῦ τοῦ Δημοσίου Χρέους τῆς Ἑλλάδος, ἐπὶ δὲ τῶν τοκομεριδίων κεχαραγμένη πανομοιοτύπως ἡ ὑπογραφὴ τοῦ Ὑπουργοῦ τῶν Οἰκονομικῶν.

1 Νοεμβρίου 1924.

Η ΚΥΒΕΡΝΗΣΙΣ ΤΗΣ ΕΛΛΗΝΙΚΗΣ ΔΗΜΟΚΡΑΤΙΑΣ.

Ὁ Ὑπουργὸς τῶν Οἰκονομικῶν. ΚΩΝ. ΓΚΟΤΣΗΣ.

Ὁ Διευθυντὴς τοῦ Δημοσίου Χρέους. Γ. Ι. ΔΡΟΣΟΠΟΥΛΟΣ.

ONE 7% BOND OF £100 TO BEARER.

ΜΙΑ ΟΜΟΛΟΓΙΑ 100 ΛΙΡΩΝ ΑΓΓΛΙΑΣ 7% ΕΙΣ ΤΟΝ ΚΟΜΙΣΤΗΝ.

NO. ΑΡΙΘ. 017504

Issue in London of £7.500.000 and in Athens of £2.500.000 Principal Amount Seven per Cent. Bonds,

In denominations of £1.000 £500 £100 and £20 dated November 1st 1924 due November 1st 1964.

Interest payable semi-annually on May 1st and November 1st in each year.

This Bond forms part of the £10.000.000 Sterling issue of the above Loan divided into:—

1.500	Bonds of	£1.000	No.	000001—001500	...	£1.500.000
5.000	„ „	£500	„	001501—006500	...	£2.500.000
50.000	„ „	£100	„	006501—056500	...	£5.000.000
50.000	„ „	£20	„	056501—106500	...	£1.000.000
						£10.000.000

Ἔκδοσις ὁμολογιῶν ὀνομαστικοῦ κεφαλαίου ἐν Λονδίνῳ **7.500.000** *λιρῶν καὶ ἐν Ἀθήναις* **2.500.000** *λιρῶν.*

Εἰς τμήματα τῶν 1000, 500, 100 καὶ 20 λιρῶν ἐκδόσεως 1ης Νοεμβρίου 1924 καὶ λήξεως 1ης Νοεμβρίου 1964.

Τόκος πληρωτέος καθ' ἑξαμηνίαν τὴν 1ην Μαΐου καὶ 1ην Νοεμβρίου ἑκάστου ἔτους.

Ἡ ὁμολογία αὕτη ἀποτελεῖ μέρος τῆς ὡς ἄνω προβλεπομένης ἐκδόσεως ἐκ λιρῶν Ἀγγλίας 10.000.000 διῃρημένης εἰς

					Λιρ. Ἀγγλ.
1.500	ὁμολογίαι τῶν	1.000 λιρῶν	ὑπ' ἀριθ.	000001—001500	1.500.000
5.000	„ „	500 „	„	001501—006500	2.500.000
50.000	„ „	100 „	„	006501—056500	5.000.000
50.000	„ „	20 „	„	056501—106500	1.000.000
					10.000.000

FOR HAMBROS BANK LIMITED.

MINISTER OF FINANCE, Ὑπουργὸς τῶν Οἰκονομικῶν.

DIRECTOR OF THE HELLENIC PUBLIC DEBT, Διευθυντὴς τοῦ Δημοσίου Χρέους.

FOR THE CONTROL. Διὰ τὸν Ἔλεγχον.

Illustration of a bond
of the First Refugee
Loan

10. Conclusion

The following constructions may be placed on what would become the largest and most 'political' loans of the interwar period. First, the scenario of foreign dependence was enhanced with the entrance of the League of Nations. True to the pattern set in 1898, Greece following an unsuccessful war motivated by irredentism was forced to accept foreign intervention in the economic sphere. However, it was not the foreigners who rushed in but once invited in they manipulated the situation financially, politically and militarily, to their advantage. Second, the negotiations preceding the loan provide a good example of how in international finance, economic factors are often intermingled with political and economic considerations. Notably, the Bank of England and the League of Nations withheld funds as a means to impede the government from abolishing the monarchy and military 'expansionism'.[108] Third, the Bank of England and the League of Nations were too optimistic regarding the prospects of Greek finances and the political situation. Indeed, in September 1924 in the preface to the Geneva Protocol Sir Arthur Salter maintained that the general situation in Greece was healthy, with the exception of the unexpected burdens that resulted from the need to settle the refugees. It is apparent at this stage that the League believed that Greece would not require a stabilization plan.[109] It is also noteworthy that at this point Britain did not want to take advantage of the loan in order to reenhance the position of the I.F.C. - as mentioned above it shed the ideas of economic sanctions as propounded by France. Thus, the mechanism of control established via the Geneva Protocol of 1924 over Greek public finances was loose and ineffective. Four, this loan was the last non-Empire foreign government loan to be raised in the City prior to the imposition of a temporary embargo designed to stabilize the pound sterling.[110] But after November 1925, when Britain returned to the gold standard a new period of seclusion began for Greece as a result of its 'inability' to settle the war debt owed to Britain and due to a host of other factors such as the deterioration in the political and financial situation. (See Book I, Section II). Thus this Refugee Loan did not mark the beginning of an easy flow of capital into Greece as was anticipated in Athens. Five, the general impression is that the proceeds of the loan were employed with care and good economic sense.[111] However, it should be noted that the net contribution of the £12,300,00 loan to the foreign exchange position of the country was only £3,500,000. Of the

£10,000,000 yielded by the issue £2,000,000 was issued in Greece and £4,500,000 was spent on importing necessary equipment for settling the refugees.[112] It should be noted that when the Greek Refugee Settlement Commission was dissolved in December 1930, the larger part of rural settlement had been completed. It had settled 552,000 out of a total of 570,000 rural refugees, making them self-supporting farmers. The work that remained to be done was undertaken in an ad hoc fashion by various governmental departments. This pattern whereby the government finished off a 'foreign' scheme was repeated to a much larger degree in the realm of foreign portfolio investment in infrastructure. (See Book II.)

How did the experience of Greece compare with that of other countries in relation to similar refugee schemes carried out by the League of Nations? In Bulgaria the dimensions of the problem were smaller. Bulgaria with a population roughly equal to Greece (approximately 5,500,000) received only 250,000 refugees. The 7% League loan raised in 1926, perhaps due to the smallsize of the issue (it amounted to only £3,000,000) was of a more international character. It was floated simultaneously in Britain, Holland, Switzerland, Italy and the U.S.A.[113] The loan negotiations were of a shorter duration. As was observed at the time, Bulgaria being a former ally to the central powers submitted more easily to the demands of the League.[114] As with Greece, the League viewed with suspicion the military and strategic intentions of Bulgaria. In addition to blocking the building of two new railroads that were of a strategic nature, the League also refused to settle the refugees in the frontier districts as they were considered to be politically active in the movement for the establishment of an independent Macedonia.[115] In addition, strict control was secured over the loan in order to ensure that its proceeds would not indirectly contribute to military expenditure.[116] Another procedural similarity was that the Bank of England furnished advances to the loan and was thereby able to enhance its influence in Bulgaria.[117]

References

1. The Canadian wheat loan of 1923 was not a new loan. It was a relief loan that had been granted under the following circumstances: The Canadian government in March 1919 opened for the Greek government a credit of up to $25,000,000 to be used exclusively for the purchase of goods produced in Canada. With this credit which was in the form of five year 5.5% debentures the Greek government purchased wheat. (Half of the country's wheat requirements were imported on a regular basis). Greece did not utilize all of the credit opened. By 1923 the outstanding debentures with interest amounted to $8,000,000. On December 27 1923 a Graeco- Canadian debt funding agreement was concluded whereby the $8,000,000 debt took the form of bonds to be redeemed over a 25 year period. As security for this longterm loan the Greek government offered the surplus of the revenues assigned to the I.F.C. Thus, what in the literature has become known as the 1923 Canadian loan was no more than a rescheduling agreement. FO371/C12122/7594/(21)/19, Minutes of April 24 1927 and FO371/C11384/11339/194/19, Minutes of January 18 1927. Also: B.E./C.B.P. 321 Vol.2: Roussin to Niemeyer, March 3 1926. Also: M.F.A./H.A., File 1926 A/7/D/ American Credits: memo titled: 'Note of the Greek Legation about the Canadian Loan' January 10 1926. Also, J.R.Lampe and M.R.Jackson, Balkan Economic History, 1550-1950, From Imperial Borderlands to Developing Nations, (Bloomington, 1982) p.385.

2. The material strain created on the Greek economy is also depicted by the fact that the annual service of the foreign debt upon the flotation of the loan increased at one stroke by 40%.

3. The R.S.C. published quarterly reports in which an analytical description of its settlement work is depicted. Also see C.Howland, L'establisement de Refugies en Grece, (Geneva, 1926); E.G.Mears, Greece Today, (Stanford, 1929); Eddy, Greece and the Greek Refugees, (London, 1931); Sir John Simpson, The Refugee Problem, (London,1939); D.Pentzoploulos, *op.cit.*, *passim*; *Οικονομικός Ταχυδρόμος*, issue 992, April 26 1973.

4. A.Tounta-Fergadi, Το Προσφυγικό Δάνειο του 1924 (The Refugee Loan of 1924), (Salonica,1986).

5. T.Vournas, Ιστορία της Σύγχρονης Ελλάδας (1909-1940) (History of Modern Greece (1909-1940)), (Athens, 1977), p.328.

6. For the Asia Minor debacle see: History of the Greek Nation, Vol. IE, pp.200-247.

7. According to M.Dritsa about 697,000 arrived within a time span of three months following the Asia Minor debacle. Source: M.Dritsa, *op.cit. passim*. For the number of destitute refugees see *The Economist*, July 14 1923, p.51.

8. Out of the total of 1,266,849 refugees 45,000 were Armenians and 151,892 had fled into the country prior to the Asia Minor debacle of September 1922. Most of the refugees originated from Asia Minor and Thrace. However some came also from Pontos, Caucausus, Russia, Bulgaria, Roumania and Serbia. The net increase in the population was 13% i.e. about 656,703 people because 610,146 Turks and Bulgarians were expelled from Greece after the latter signed a population exchange agreement with Turkey in January 1923. Source: Economic Yearbook of Greece for 1929, p.9. Also, Freris, *op.cit.* 43.

9. For the British hostility towards the 'revolution' see: S.Markezinis, *op.cit.*, p.21.

10. For the goals of the 'revolution': see History of the Greek Nation, pp.251-252. For the desire of Britain to maintain peace in SouthEastern Europe and Greece's difficult relations with her neighbours see: same source, pp.286-287.

11. For Morgenthau see: FO371/9890/C2665, Bentinck to Lampson, January 19 1924, FO371/9890/C2681, Bentnick to MacDonald, February 6 1924. For his antiroyalist sentiments plus activities see also, H. Morgenthau, I was sent to Athens, (New York, 1929), pp.118-156.

12. The High Commission for the Russian refugees at Istanbul spent on the Greek refugees the sum of 150,000 Swiss francs and £60,000. Source: S.P. Ladas, The Exchange of Minorities, Bulgaria, Greece and Turkey, (New York, 1932), pp.618-622.

13. In total around $2,600,000 was spent on relief by the American Red Cross. Source: Ladas *ibid.*

14. FO371/8835/C2556, Bentinck to MacDonald, January 29 1923.

15. B.M./V.A., File 35: Alexandris to Venizelos, January 8 1928.

16. Venizelos who was trying to secure the remaining credits was instrumental in convincing the government not to go ahead with the loan. For his belief that it would have been better had Greece secured the book credits instead of raising a Refugee Loan see: B.M./V.A., File 45: Memorandum of December 1926 written by Venizelos. Also, the archives mention that in the end of January 1923 the Greek minister of Foreign affairs, in an act of desperateness, suggested to the British that if they lent Greece £15,000,000 the latter in return would be willing to "exclude military men from the cabinet; to hold elections after peace has [had] been signed, to put Greek army into field in case of war between Turkey and Great Britain". Source: FO371/8834/C3356/852/19 Minutes of January 2 1923.

17. A.Diomedes, (1922), *op.cit.*, pp.71-73. Also, National Bank of Greece, Απολογισμός του Ετους 1922 (Annual Report for 1922), (Athens, 1923), p.10.

18. The nominal value of Greek securities being £100.

19. For the original Nansen proposal see: Societe des Nations C.736 (a) M.447 (a) 1922, Communique au Conseil et aux Membres de la Societe, Geneve 18 Novembre 1922, Les Refugies en Grece et en Asie Mineure, Note du Secretaire General.

20. Regarding Austria there had been fear that if a large loan was not provided at once Bolshevism or the movement for unification with Germany might spread. Also note that the fact that the League had political interests in mind when supporting the loan is depicted from the fact that in return for the loan Austria "had to undertake to remain independent for at least 20 years". See Encyclopedia Brittanica, Chicago 1967, Vol 2., entry 'Austria' p.818,. For the refusal of the Nansen proposal by the League and the Drummond proposal see: M.F.A./H.A., 1922-1923, League of Nations/D2, File 76, 'Refugee Loan League of Nation Approval': Michalakopoulos to Ministry of Foreign Affairs, March 17 1923.

21. FO 371/9887 C5427/545/19, Niemeyer to Smith, March 28 1923.

22. M.F.A./H.A. 1922-1923 L.N./D2, File 76, 'Refugee Loan League of Nation Approval', Michalakopoulos to Ministry of Foreign Affairs, April 12 1923.

23. The technical report which set out the framework within which a settlement scheme could be devised was prepared by Colonel Procter. For this and the financial report see: League of Nations, Official Journal, August 1923, pp.903-4,1014-5.

24. Michalakopoulos contacted Dutasta and Davis who was Governor of the Banque Nationale de Credit. See: N.B.G./H.A., X Loans, A' Public Loans, File 144 Refugee Loan: Michalakopoulos to the Ministry of Foreign Affairs, April 2 1923. For the fact that Michalakopoulos in March also made an appeal for a loan to The British Federation of Industries, see: M.F.A./H.A., 1922-1923, League of Nations/D2, File 76, 'Refugee Loan League Approval': Michalakopoulos to Ministry of Foreign Affairs, March 17 1923.

25. M.F.A./H.A., 1923/League of Nations/D2, File 42 'Refugee Loan': Memo prepared by the Ministry of Foreign Affairs, June 26 1923.

26. M.F.A./H.A., 1922-1923/League of Nations/D2, File 75 'Refugee Loan League of Nations Approval': Minister of Finance to Ministry of Foreign Affairs, April 3 1923; Michalakopoulos to Ministry of Foreign Affairs, May 7 1923; Minister of Finance to ministry of Foreign Affairs, May 30 1923.

27. Maybe in order to placate the leaders of the revolution he claimed in June that his original proposition regarding the creation of an autonomous organization was no longer relevant because Greece's position had in the meanwhile improved and he wanted to continue the efforts he had started in March to raise a loan in France.

28. M.F.A./H.A., 1922-1923/League of Nations/D2, File 42, 'Refugee Loan': Kollas to ministry of Foreign Affairs, June 25 1923. Ministry of Finance. For Gonatas and Kofinas objections see: M.F.A./H.A., Refugee Loan, File 42, Gonatas to the Greek representation in Geneva , June x 1923, Gonatas to Venizelos (undated), and Gonatas to Michalakopoulos (undated). Also, M.F.A./H.A., 1922-1923/League of Nations/D2, File 75, 'Refugee Loan League of Nation Approval': Kofinas to Ministry of Foreign Affairs, April 8, May 30, 1923.

29. The U.S. government was thinking of providing relief to the refugees after the withdrawal of the American Red Cross under the condition that half of the costs would be shared with another country. With the purpose of making a relevant agreement, it approached the British, French and Italian governments. For the American Red Cross see: *The Times*, April 4 1923. Also B.M./V.A., File 39: Johnson to Aeghnides undated. For the American government see: FO371/9889/C6093, Minutes of June 12 1923.

30. The reports prepared by the two subcommittees that had been appointed to study the Greek case were examined in detail. Various versions of the Procter report were prepared. Apparently the Financial Committee pressed for a R.S.C. with 'enlarged League responsibility'. Also, M.F.A./H.A., 1922-1923/ League of Nations/D2, File 42, 'Refugee Loan': document titled: II - The second plan: League responsibility enlarged, and Emprunt pour les refugies en Grece: Rapport de la sous commission. The Financial Committee on March 13 asked from the ministry of Finance that it provide a detailed account of the aforementioned data. The Greek reply came on May 5 1923. For questions posed and Greek reply see: B.M./V.A. File 75, Kofinas to Ministry of Foreign Affairs, May 30 1923. Also: Tounta-Fergadi, *op.cit.*, pp.57-58. Also see: FO371/8835/C2566, Annual Report for 1922-1923, p.53.

31. The report prepared by the League officials uncovered the magnitude of the structural imbalances of the Greek public sector. Source: L.N./S114/ document titled: 'Memorandum on Greek Economic and Financial Position', May 22 1923. It was prepared by the Secretariat on the basis of the League factfinding mission.

32. For the terms posed by the League see: N.B.G./H.A., X Loans, A' Public loans, File 144, Refugee Loan: Kaklamanos to Ministry of Foreign Affairs, July 12 1923.

33. B.G./T.A., Document 18/56, Resolution of the Council of the League of July 4 1923.

34. B.M./V.A., File 40: Memorandum prepared by Dr. F.Nansen and Colonel Procter concerning the Greek refugee problem, July 1923.

35. For the fact that Norman agreed to discuss only with Diomedes and no other Greek official, see: N.B.G./H.A., X Loans, A' Public loans, File 144, Refugee Loan: A.Diomedes to G. Kofinas, July 28 1923. For the fact that the government also tried to arrange for a flotation in the U.S.A. at approximately the same time see: M.F.A./H.A., 1923, League of Nations/D/2, File 42, Refugee Loan: Kaklamanos to Prime Minister, July 5 1923.

36. N.B.G./H.A., X Loans, A' Public loans, File 144, Refugee Loan: Norman to Diomedes, August 1 1923; and Norman to Diomedes August 1 1923.

37. Tounta-Fergadi, *op.cit.*, p.68.

38. B.G./T.A., Document 18/56: Geneva Protocol of 1923. In particular: articles i, iv, and organic statutes of the Greek Refugee Settlement Commission, statutes iii,iv,vii,xi,xvii.

39. B.M./V.A., File 269: Venizelos to M.Salanda, July 4 1923. Also, M.F.A./H.A., 1922- 1923/League of Nations/D/2, File 42, 'Refugee Loan': documents of June 30 1923 and July 5 1923. For details on the initial proposal of the League that the loan be guaranteed by a consortium of Greek banks because the government in power was not an elected one, see: P.G., Fourth Constitutional Assembly of the Greeks, Session of 8-14th July 1924, pp... Also M.F.A./H.A., 1923, League of Nations/D/2/, File 42, 'Refugee Loan', documents of June 30 1923 and July 5 1923.

40. B.G./T.A., Document 18/56, see: September 1924 amendments.

41. These advances were to be repaid out of the proceeds of the first foreign loan to be raised and in any event within one year. In the archives there is evidence of three advances amounting to a total of £3,000,000. However, it is possible that the N.B.G. gave a further £500,000 for in the prospectus circulated by the British underwriters it is stated that the advances amounted in total to £3,500,000. N.B.G./H.A., X Loans, A' Public Loans, File 146, Refugee Loan: Refugee Loan, Prospectus titled: 'Greek Government 7% Refugee Loan of 1924'.

42. For the advance given by the National Bank of Greece on its own see: N.B.G./H.A.: Meeting of the Board of Directors, July 21 1924.

43. For the terms of this first advance granted by the Bank of England see: N.B.G./H.A., X Loans, A' Public Loans, File 144, Refugee Loan: A.Diomedes to G.Kofinas, July 28 1923; Diomedes to Ministry of Foreign Affairs, August 6 1923; Niemeyer to Diomedes August 9 1923.

44. Only the National Bank of Greece could conclude a foreign loan, but under the condition that it was fully secured in gold.

45. This advance was additionally secured by the written guarantee of the N.B.G. and the value of the refugee settlements the Government had erected prior to the establishment of the R.S.C. Source: Morgenthau, *op.cit.*, pp.203-205.

46. The first meeting of the members of the R.S.C. was held on November 14 1923. Presumably, the announcement of the establishment of the R.S.C, had been made a few days earlier. Tounta-Fergadi, *op.cit.*, p.118. The demobilization of the army began on July 29 1923 and was completely concluded on December 31 1923. FO371/8835/C2556/ Annual Report for 1922-1923.

47. For the coup d'etat see Campbell, *op.cit.*, p.130-131. The term 'mismanaged rebellion' was taken from this source. For the ousting of the officers and Baldwins threat to the Greeks that a loan would not be forthcoming if the issue of the monarchy was rekindled see: History of the Greek Nation, Vol.IE, pp.275-276. The *Financial News* on November 11 1923 stated that if the monarchy was overthrown Greece would be unable to raise an international loan because the League of Nations and Britain would withdraw their support.

48. For Norman's decision see Morgenthau, *op.cit.*, p.183.

49. For Diomede's private reservations regarding whether Greece actually needed this programme see: B.N./V.A., File 323, Diomedes to Venizelos, November 26 1923.

50. For Niemeyer's objections see: FO371/8832 C20116/371/19, Niemeyer to Nicolson, November 19 1923. The British Foreign Office made protests to the French government and warned them that they could not release book credits in order to finance the Greek naval program. FO371/8832/C22053, Nicolson to Niemyer January 3 1924.

51. FO371/8832/C19377/C19457/371/19, Bentinck to Foreign Office, November 9,11 1923.

52. FO371/8832/C20116/19. As one high standing Foreign Office offical, Harvey Nicholson put it, he felt that the naval programme was: "navally unnecessary, politically undesirable, financially unsound, economically dangerous, and positively destructive of the whole refugee settlement". As another source put it "We cannot but feel that this extravagant scheme has been suddenly evolved for the purpose of purchasing the support of a Great power. If we surrender to this attempt at blackmail, we shall before long find ourselves committed to support a new Republican Greece; and shall be involved in endless complications in the future." See: FO371/8832/C20115/C20116/C20296/C20206/C19963/371/19, Niemyer to Nicolson, November 19 1923; Admiralty Memo, November 19 1923, Joynson-Hicks to Foreign Office, November 20 1923; Bentinck to Foreign Office, November 20 1923; Nicolson to Niemeyer, January 3 1924.

53. B.M./V.A., File 323: Diomedes to Venizelos, November 26 1923.

54. *Μηνιαίο Στατιστικό Δελτίο της Τραπέζης της Ελλάδος*, January 1930, p.55. Also, see Hambros Bank, *Market Reports and Price lists* for throughout 1923-1924.

55. FO371/9888/C2681/ February 1924, Minutes written by Bentinck.

56. Campbell, *op.cit.*, p.131.

57. The new British Ambassador arrived in Greece on March 8 1924. Source: Markezinis, *op.cit.*, p.21. For Venizelos' belief that the Greek army and navy must limit themselves to a defensive role see: History of the Greek Nation, Vol. IE, *op.cit.*,p.73.

58. Morgenthau, *op.cit.*, p.195.

59. Morgenthau, *op.cit.*, pp.197-198.

60. In the spring of 1923 the external value of the drachma swung from a low of 426 drs. to the pound sterling to a high of 166 within a few weeks. Source: National Bank of Greece, Απολογισμός του Ετους 1923 (Annual Report for 1923), p.xi However, during the first five months of 1924 the swings in the external value of the drachmae were less pronounced. The lowest price being 263 drs. to the pound sterling and the highest 216 drs. Source: *Δελτίον Κινήσεως Αξιών εν τω Χρηματιστηρίω Αθηνών διά τα έτη 1920-1926.*

61. For the protest made by the Foreign Office to the effect that it would be wrong for the National Assembly to declare Greece a Republic prior to the holding of a plebiscite see: Daphnes, *op.cit.*, Vol. A, p.179.

62. B.E./C.B.P. 326, Vol 1: Memorandum of a meeting held at the Bank of England, March 7 1924.

63. For the outcome of the plebiscite see Daphnes, *op.cit.*, Vol. A, pp.244-246.

64. B.E./C.B.P. 326, Vol.1, Notes of a meeting held at the Bank on May 5 1924. N.B.G./H.A., X Loans, A' Public Loans, File 145, Refugee Loan: Diomedes to Drossopoulos, May 10 1924.

65. The reserves jumped in the spring of 1924 within the span of a few weeks from around £3,000,000 to £6,500,000. B.E./C.B.P. 326, Vol.1, Notes of a meeting held at the Bank of England on May 5 1924. Also: N.B.G./H.A., X Loans, A' Public Loans, File 145, Refugee Loan: Drossopoulos to Diomedes, May 19 1924. Also, see: *The Economist*, May 10 1924, p.963.

66. N.B.G./H.A.: X Loans, A' Public Loans, File 145, Refugee Loan: Diomedes to Drossopoulos May 15 1924, Diomedes to the Prime minister May 9 1924. Also, in order that the Bank of England be assured that money would not be diverted to military purposes it insisted that the advance should not be used to ease the burden of taxes so that a clever Greek government might then be free to use the tax revenue, for military purposes. Source: Morgenthau, *op.cit.*, p.199.

67. In addition, the Government was not even allowed to print the 750,000,000 drachmae for which it had been granted special permission under the first advance. Norman made it clear that no issue should take place before the flotation of a Refugee Loan. N.B.G./H.A., X.Loans, A' Public Loans, File 145, Refugee Loan : Diomedes to Drossopoulos, May 10 1924.

68. For the competition among various countries for Greek contracts see: FO371/10771/C5060/19, Annual Report for 1924, pp.43-44; Also Annual Report for 1922-1923 FO371/8835/C2556/C6021. Also, N.B.G./H.A., X Loans, A' Public Loans, File 145, Refugee Loan: Diomedes to Sir Eric Hambro, May 15 1924.

69. FO371/10771/C5060/19, Annual Report for 1924.

70. Same source as previous reference.

71. For the efforts of Papanastassiou to undermine the independent status of the R.S.C. see: B.G./T.A., Document 17/33: Memo prepared on July 1 1924. Also Document 17/34: Second announcement made on July 2 1924. Also, FO371/9889/C18809, Minutes of March 31 1924. For the effort of refugee deputies to convince the government to repudiate Geneva see: FO371/9889/C18815, April 2 1924. For the ministerial decree of September 1924 through which the government undertook to respect the R.S.C. see: B.G./T.A., Document 17/67: R.S.C. Chairman to the President of the Ministerial Council, Athens September 22 1924.

72. B.G./T.A.: Document: 18/56, Resolution adopted by the Council and the Fifth Assembly of the League of Nations on September 25th, 1924.

73. B.E./C.B.P. 326, Vol.2, E.Hambro to Norman, November 17 1923; Gordon Leith to Hambro, December 4 1924 and December 11 1924.

74. B.G./T.A., Document 18/42: Tsouderos to Ministry of Finance, September 20 1924.

75. B.E./C.B.P. 326, Vol.2, Hambro to Norman, December 1 1924.

76. B.E./C.B.P. 326, Vol.2: Norman to Diomedes, November 14 1924.

77. B.E./ C.B.P. 326, Vol.2: Nathan to Norman, December 9 1924.

78. The stamp duty was 2% and the bank commission was 5% for the sterling issue and 6 3/4 % for the dollar issue. See contracts in the *G.G.*, First issue, Folio 118, May 12 1925.

79. By Greek standards the period was not long as redemption periods for previous twentieth century had been much longer: the 1902 Greek Railway Loan was 98 years; the 1907 National Defence Loan 36 years; the 1910 Loan 50 years; the 1914 Loan 50 years; and the 1923 rescheduled Canadian government loan 25 years. Source: Economic Yearbook of Greece for 1932, pp.505-513.

80. For exceptional amortization: Prospectus *G.G.*, First issue, Folio 123, May 15 1925. C.Eddy, *op.cit.*, p.172. B.G./T.A., Document 21/101, Tsouderos? to Freshfields Leese and Munns, January 16 1928. Also, Economic Yearbook of Greece for 1929, p.275 and *Δελτίον Κινήσεως Αξιών εν τω Χρηματιστηρίω Αθηνών*, 1930, pp.53-56.

81. Economic Yearbook of Greece for 1929, *ibid.* Also, *Δελτίον Κινήσεως Αξιών εν τω Χρηματιστηρίω Αθηνών, ibid.*

82. Article 5 of the contract.

83. Hill, *op.cit.*, p.41.

84. B.E./C.B.P. 326, Vol.2, Norman to Diomedes, November 14 1924. Also see: B.M./V.A., File 325, Diomedes to Venizelos, November 15 1924. Norman also complained about the fact that the government had ordered the two submarines in the spring. See: B.G./T.A., Document 18/45: Diomedes to Tsouderos, September 25 1924 and Document 17/83: Tsouderos to Norman, September 26 1924.

85. For the actions of the FO see: FO371/9890/C17331, Cheetham to Foreign Office headquarters, November 17 1924.

86. For Hambros intervention: B.E./C.B.P. 326, Vol.2, Hambro to Norman November 17 1924. Also, Annual report 1924, F0371/10771/C5060/19. For Hambros stake in the firm see: B.M./V.A., File 332, Hambro to Venizelos, October 26 1928.

87. For a description of the differences see: *Ελεύθερον Βήμα*, November 28 1924. On the decision to reach arbitration see: *Ελεύθερον Βήμα*, December 2 1924. For the result of the arbitration which came out in September 1925 see: "Η Λύσις του Ζητήματος της Κωπαϊδος-Διαιτητική Απόφασις" (The Solution of the Kopais Issue-The Result of the Arbitration), *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος*, September 1925, issue E, pp.414-436.

88. M.F.A./H.A., Symvatikon, 1924/D/119, "Discussion between Michalakopoulos and the French Ambassador", May 25 1925.

89. FO371/9889/C13372/C13467/19, Minutes October 21 1924, October 29 1924.

90. For the proposition made by the French in February 1924 that the Powers should agree to waive the lien they held over government revenues under the 1918 agreement only if the Greek government accepted the imposition of a clause for sanctions in the Law of Control see: FO371/9887/C1102, Niemeyer to Undersecretary of State, February 1924. Unfortunately we do not know what the position of Italy was on this point. FO371/8835/C2556, Annual Report for 1922-1923. For objection of the British to the imposition of sanctions see: FO371/9887 C1180, Bentinck to Lampson, January 11 1924.

91. M.F.A./H.A., 1923, League of Nations, D/2, File 42, Refugee Loan: Politis to Minister of Foreign Affairs, March 21 1923. Specifically they were against having the revenues of the new provinces (state what these provinces were) assigned for the service of the Refugee Loan. Source: FO371/9889/C13302/19, Minutes August 20 1924.

92. FO371/9889/C14494 Bentinck to MacDonald September 2 1924.

93. The amendments were installed on September 19 and the declaration was signed on September 25 1924.

94. For Norman surprise see: B.E./C.B.P. 326, Vol.2, Norman to Eric Hambro, December 5 1924. The exact words of Norman were: "Let me take off my hat to you for the way on which you have handled the issue in London - no one would have believed Greece could, in so short a time, become so popular!".

95. *Ελεύθερον Βήμα*, December 26 1924. For the terms of the German loan see: N.B.G./H.A., X Loans, A' Public loans, File 147, Refugee Loan: Prospectus for the German external Loan of 1924 printed by the Bank of England, October 1924.

96. Reportedly,the Greek community of London had not declared a keen interest in the bonds of this loan when first approached by Diomedes. Unfortunately, we do not know how many bonds it purchased exactly. Source: N.B.G./H.A., X Loans, A' Public loans, File 145, Refugee Loan: Diomedes to Drossopoulos, December 9 1924.

97. N.B.G./H.A., X Loans, A' Public loans, File 145, Refugee Loan: Diomedes to Drossopoulos December 9 1924. Reportedly, Speyers also made a similar offer. Source: *Ελεύθερον Βήμα*, December 29 1924.

98. For press campaign see: N.B.G./H.A., X Loans, A' Public Loans, File 145, Refugee Loan: Diomedes to Drossopoulos, December 9 1924.

99. The N.B.G. alone bought bonds of a total real value of £630.000. G.H.L.A./D.A.: Negotiations of Tsouderos and Venizelos in London in 1926, Diomedes to Kafandaris, December 22 1927. For the fact that the market manipulation was a well thought out 'plan'and did not occur at the spur of the moment see: N.B.G./H.A., X Loans, A' Public loans, File 145, Refugee Loan: Diomedes to Drossopoulos, May 15 1924. Also, £3,000,000 from the account held by the N.B.G. at the Bank of England was spent to support the exchange value of the drachma. Source: B.E./C.B.P. 321, Vol.1: document of November 5 1924.

100. *Ελεύθερον Βήμα*, December 19 1924.

101. N.B.G./H.A., X Loans, A' Public loans, File 147, Refugee Loan: document titled: National Refugee Loan 7% 1924, £12,300,000 -issue in Greece and Egypt, December 17 1924. Also N.B.G./H.A., Public Loans, File 144, Diomedes to Drossopoulos, November 11 1924.

102. Unfortunately, we do not know exactly the dimensions of the oversubscription. Source: FO371/9890 C19536, Howard to Chamberlain, December 18 1924.

103. For the expectation of Michalakopoulos, and other political figures that the loan would lead to a flow of foreign capital see: *Εθνική Οικονομία*, January 1925 issue; *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος*, December 1924, pp.858,860.

104. These were the Parliamentary sessions of February 21 1924; June 24,25,27,28 1924; July 3,7,14,17 1924; November 11 1924. Source: *Εθνικός Κήρυκας*, *op.cit.*, Vol.7, pp.95-98,234-252,315-323.

105. *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος*, 1924-1925, December 1924, pp.852-867.

106. *Ελεύθερος Τύπος*, April 3 1925, *Οικονομολόγος Αθηνών*, October 4 1924, December 13 1924.

107. Sir John Campbell (President of the R.S.C. after the resignation of H. Morgenthau) had estimated in 1924 that by 1928, the refugee payment to the R.S.C. in return would be so substantial that they would be able to cover the annual service of the loan. Apparently at no point in time did they manage to cover but a small part of their dues. Source: A.Pallis, <u>Συλλογή Στατιστικών Στοιχείων της Ε.Α.Π.</u> (Statistics concerning the R.S.C.) (Athens, 1929), p.37.

108. "Norman speaking for the financial world had insisted that political stability must be assured before large loans promised". Source: Morgenthau, *op.cit.*, p.118

109. The Greeks were even more optimistic. Diomedes argued that the exchange value of the drachma would actually improve as a result of the loan and that the drachma would stabilize at 250 drachmae to the pound sterling. This was the average rate against the pound sterling for 1924. Source: N.B.G./H.A., XXII, ID, The N.B.G. and Foreign Banks, File 70, Correspondence with Hambros Bank: Sir Eric Hambro to Diomedes, October 21 1925. This conviction was expressed by the Greek government. In the prospectus to the loan the Greek Ambassador in London made his estimates of the revenues for 1925, under the control of the I.F.C. under the assumption that the exchange rate would be 250 drachmae to the pound sterling. This was optimistic. During 1925 the exchange rate fell to 312,74 drs. to the pound sterling. Source: N.B.G./H.A., X Loans, A' Public Loans, File 146, Refugee Loan: Prospectus of the Greek government 7% Refugee Loan of 1924 printed by Hambros Bank in December 1924.

110. *Ελεύθερον Βήμα*, May 21, June 21 1925. According to the R.I.I.A., "During 1924, preparatory to the return to the gold standard, the control of new issues was resumed, and during the eighteen months prior to November 1925, only refunding issues and certain loans to Empire countries and for financial restoration in Europe were permitted". Source: R.I.I.A., (1937), *op.cit.*, p.134.

111. See: Pentzopoulos, *op.cit. passim*, and Ladas, *op.cit. passim.*

112. *Financial News*, October 23 1925, interview with I.Drossopoulos, Co-Governor of the National Bank of Greece.

113. Ladas, *op.cit.*, p.595. Also, see: R.Notel, "International Credit and Finance", in M.C.Kaser and E.A.Radice (eds), The Economic History of Eastern Europe 1919-1975, (Oxford, 1986), p.198.

114. Bulgaria applied for the loan in the beginning of May 1926 and the loan was floated in December 1926. Source: R.S. Sayers, The Bank of England 1891-1944, (Cambridge, 1976), Vol. I, p.199.

115. Ladas, *op.cit.*, p.594; Simpson, *op.cit.*, pp.24-25; A.Toynbee, Survey of International Affairs, (London,1927), part ii, pp.212-214.

116. In the case of Bulgaria the League appointed a Commissioner who supervised the refugee settlement scheme throughout its implementation which lasted from December 1926 to January 1933.

117. The advance amounted to £400,00 and was furnished on August 26 1926. Source: Encyclopedia Britannica, (Chicago, 1967), Vol.4, index entry 'Bulgaria', p.392.

SECTION II

MISSED OPPORTUNITIES:
PROBLEMS AND DILEMMAS OF FOREIGN CONTROL (1925-1926)

Introductory Comments

When the First Refugee Loan was floated the League of Nations and the international community were under the impression that Greece was on the threshold of stabilization. This was far from so. From early 1925 to mid 1926 financial instability and political anarchy returned. The budget deficit widened and the drachma rejoined its familiar downward path. (For details on the financial problems of these two years see: Book I, Section III, Phase One) Greece was relegated to the status of an outcast as the military dictatorship established under General Theodore Pangalos in the summer of 1925 rekindled territorial ambitions in Asia Minor and Eastern Thrace.[1] One may argue that from the point of view of the League of Nations and other supervisors such as the Bank of England, the British Treasury, the Foreign Office, the I.F.C., Greece entered the postwar era, not in 1922 with the demise of the Asia Minor Campaign, nor in December 1924 with the flotation of the First Refugee Loan, but in 1927-1928 with the implementation of the League stabilization scheme.

During 1925-1926 conflicts amongst the country's supervisors, between them and the Greek government 'peaked'. Moreover, Greece experienced even more missed opportunities in that it was unable to arrange public flotations in the important world financial centers. Its exclusion from 1920 till the end of 1924 had been less detrimental as the international economy had not yet recovered from the post WWI doldrums. This section discusses the disparate events that were responsible for this twin phenomenon of 'alienation' and missed opportunities. At this point let it be noted that the resolution of the problems which emerged regarding Greece's external relations required official actions that were not feasible given the political situation. Part 1 examines Greece's abortive attempts to raise a supplementary refugee loan during 1925 and 1926. A discussion is made in Part 2 of the three specific events which enhanced League and British mistrust towards Greece during 1925-1926. These were: the conclusion of the Swedish Match Loan; the legal battle waged against the R.S.C.,[2] and the Graeco-Bulgarian military episode of October 1925. Finally, Part 3 analyses the British war debt debate cum embargo and its repercussions on the inflow of foreign capital and the exercise of external control.

1. Abortive Attempts Made to Raise a Supplementary Refugee Loan During 1925-1926

1.1. Greece Tries to Raise a Supplementary Refugee Loan in the City without League Supervision

Shortly after the flotation of the First Refugee Loan it became apparent that supplementary funds would be necessary. The flow of refugees into Greece had far exceeded original estimates. Also expenditure per family proved higher than the initial calculations for a number of reasons such as the need to upgrade housing, the extended marsh lands surrounding most settlements, lack of agricultural tools and machinery, and the absence of a land register.[3] The first attempt to raise additional capital for the refugees was made by Diomedes. In August 1925 -most likely under government orders- he explored with Hambros and the Bank of England the possibility of raising a fresh £5,000,000 Refugee Loan on the open market without the supervision of the League. They were reluctant. Hambros and the Bank of England believed that the market was not ready to absorb a new Greek issue as only eight months had passed since the flotation of the First Refugee Loan. There were also other reasons, namely financial and political instability and the fact that Pangalos wanted the funds to be administered directly by the government.[4] Norman made it clear that he would not assist Greece to raise the supplementary loan, unless the government committed itself to place the proceeds at the disposal of the R.S.C.[5] For the governor of the Bank of England to approve a Refugee Loan not to be handled by the R.S.C. would be insulting to the League of Nations.[6]

But the Greeks did not give in. Notably, Diomedes in September 1925 renewed his request for supplementary funds by asking for a larger loan i.e. a total of £6,000,000. He suggested that "only" £2,000,000 would be paid directly to the government, free of R.S.C. control. This tranche would be used to cover that part of the budget deficit caused by expenditures on account of the refugees. The remaining £4,000,000 would be allocated either to a "quelqueonque" commission, or to "the existing commission, but under increased government authority".[7] Norman was not impressed. He curtly announced to Hambros and the government that he would not allow the flotation of a loan in the City, neither for the refugees nor for pubic works unless the Greeks first agreed to place all supplementary funds for the refugees at the disposal of the R.S.C. The government would also have to accept the autonomy of the R.S.C., and curtail military expenditure and balance the budget as promised to the League in September 1924.[8]

1.2. The R.S.C. Approaches the League of Nations

Three months later, in December 1925, Howland -the new President of the R.S.C.- sounded out the League regarding the possibility of a new £4,000,000 loan. Two thirds of the proceeds of the Refugee Loan had already been spent but 200,000 refugees had not yet been settled. This request was made independent of the government.[9] Pangalos continued to denounce a new League loan because it would enhance the power of the R.S.C.[10] But, by February 1926 Howland had acquired a Greek "accomplice": Diomedes. It is not clear whether the banker joined Howland with the silent assent of the government or whether he took the initiative on his own.[11] Nevertheless, Howland failed to arrange a new loan. In a nutshell, he was informed by the Financial Committee of the League that "a further loan was out of the question". Greece would first have to settle her war debt with Britain. It would also have to pass through a trial period during which it would be called to attain some degree of financial and political stability as well as put things right "vis a vis the League".[12]

But, one month later, in March 1926, Norman announced that the Bank of England would grant in conjunction with Hambros and the National Bank of Greece a £1,000,000 advance in July, if the Financial Committee approved during its June session the flotation of a supplementary £4,000,000 refugee loan.[13] Norman made this gesture because he was keen to see a League loan raised. It would be good business for the City and would also provide an opportunity to 'force' stabilization without the Bank of England having to bear all of the onus. As for the government, in the absence of an alternative solution, it tacitly accepted a League loan.

In the end, no Bank of England advance was granted as the Financial Committee in its June 1926 session limited itself to a preliminary examination of Greek public finances and failed to authorize a supplementary refugee loan. It is obvious that by this stage the League was moving already in the direction of linking the issues of a new refugee loan and stabilization. A questionnaire handed out to the Greek Treasury on June 5 1926 effectively reveals that the League's major concern was no longer the settlement of the refugees but instead the comprehensive political and financial stabilization of Greece.[14] The following excerpt from a letter of the president of the Financial Committee to Howland is characteristic:

> "In its [i.e. the Financial Committee's] view the obstacles to raising a new loan have nothing to do with the settlement scheme per se as it has itself developed well. Obstacles are due to the fact that there are a number of factors in the policy and financial situation of Greece which cannot but seriously prejudice any new loan: a) the budget situation, b) the substantial increase in military and naval expenditure, c) militarism, d) the currency position and policy- arrangements must be made to secure the stabilization of the drachma, e) the political situation, f) the war debt, g) the conflict between the League-appointed R.S.C. and the government, although yes there has been some improvement there."15

In short, the negotiations that the R.S.C. and the government opened in early 1926 with the League for a supplementary refugee loan soon became much wider and involved Greece's comprehensive adjustment to the post WWI international order.[16] Although the Financial Committee did not approve a supplementary loan in its June session, the Greeks were not totally discouraged. Salter had indicated that if by September 1926 Athens had begun to adopt orthodox economic measures and agreed to curtail its military expenditure, a loan could be floated in the autumn.[17] However, this was not to be as in July there were two unfortunate developments. The government irritated the League by placing an unproductive loan in Sweden and the negotiations over the British war debt broke down.

Before going on to describe and analyse these events, it should be underlined that though a hard line approach prevailed there was dissent among the supervisors regarding whether the British war debt embargo (which had been imposed sometime in late 1925 or early 1926) should apply to a new League loan. (For the war debt embargo see below Part 3). In contrast to Salter, who did not consider that the failure of Greece to settle its war debt should obstruct the flotation of a supplementary loan,[18] Niemeyer declared that the Financial Committee "would never support a loan to a country whose finances are in disorder because they have outstanding debts unregulated." In the end, it was Niemeyer who prevailed in the Financial Committee and not Salter. For as noted in the Foreign Office papers Niemeyer "was in fact" the F.C. and as a result the latter recommended "whatever" he said.[19] Niemeyer was still at the Treasury and he saw to it that the actions of the League of Nations did not conflict with the interests of the Treasury.

At home, Niemeyer ensured that the Bank of England and the Foreign Office followed the Treasury line.[20] However, certain Foreign Office officials accepted Salter's view that the war debt issue should not be linked with the question of a supplementary loan. The most articulate 'objector' was Oliver Harvey, who argued that such a loan being humanitarian and under the supervision of the League was by definition a "matter of foreign affairs rather than finance" and should not be included in the war debt embargo. He forewarned that if the British government vetoed the loan in Geneva because of the unsettled war debt it would incur the "odium" of obstructing a "humanitarian course".[21] These objections were silenced and outwardly, the Foreign Office presented a united front with the Treasury.

In conclusion, the supplementary funds placed at the disposal of the R.S.C. amounted to only £3,000,000. This was 75% of the sum that had been initially demanded by the R.S.C. back in December 1925. Moreover, these credits were furnished with a considerable time delay and in two installments. From the January 1928 League Stabilization Loan only £500,000 was allocated for the refugees. The bulk of the funds -i.e.£2,500,000- took the form of a loan given by the U.S.A. government in May 1929. (See Book I, Section III, Phase Two, Chapter 2).

2. Greece 'Irritates' the League of Nations

2.1. The Swedish Match Loan

In July 1926, the Pangalos government resorted to the Swedish capital market and obtained a £1,000,000 private loan from the match trust Svenska Tandsticksaktielboget which had raised similar but larger match monopoly loans for Roumania, Poland, Yugoslavia Hungary, India and certain Latin American countries.[22] The terms of the loan were onerous: the issue price was set at 94, the nominal interest rate was 8.5%, and the redemption period was 28 years. The

I.F.C. naturally was not asked to guarantee the loan. The government however followed its usual practice of allocating the surplus funds of the I.F.C. as security of the loan. As part of the contract, the government gave to the Alsing Trading Co. the exclusive right to sell matches in Greece for 28 years (1926-1954).[23] The match company was close to Hambros Bank, [24] and had gained a foothold in the Greek market during WWI. Until then, Greece had been the preserve of the Austrian match group Solo.[25]

The unique status of this loan is illustrated by the following fact. Whereas the preamble of all other Greek loans raised abroad during our period of study indicated how the loan was to be spent, in this instance the title depicted the purpose for which the foreign creditor furnished the loan. One cannot help asking whether it was worth ceding this monopoly for such a small amount.[26] No records exist as to how the loan was spent. According to the government, it was employed in covering past expenditures for settling refugees outside the context of the scheme undertaken by the R.S.C. However, according to contemporary reports the loan was used to cover 1/3 of the budget deficit for 1926-1927.[27] Niemeyer openly maintained that this loan was of an unproductive character.[28] The same opinion was voiced in the Greek academic community.[29]

With the conclusion of the Swedish loan the prospects of raising a supplementary refugee League loan became even slimmer. As has already been mentioned, the text of the September 1924 Geneva Supplementary refugee loans did not allow the government to conclude loans for unproductive purposes. Moreover, the I.F.C. was also annoyed because by not requesting the permission of the ex-Allies before concluding the loan the government had violated article 4 of the Paris agreement.[30] One final comment. Apparently Pangalos wanted to raise other monopoly loans for revenue (i.e unproductive) purposes. In the summer of 1926 he approached Greece's two main suppliers of petroleum products,[31] the American firm Standard Oil, and the British Asiatic Petroleum and offered them a joint monopoly in benzine and gas oil throughout Greece and on kerosine in new Greece in return for a £15,000,000 loan "to be secured on the proceeds of the custom duties on the imports of these products".[32] Both companies declined the offer. They claimed that they did not want to become 'bankers' and were opposed in principle to the obtaining of monopolies.[33] Possibly, the real obstacle was that the two companies could not agree on the terms of the loan as each would have preferred an arrangement which excluded the other. Apparently Pangalos intended to elicit bids from Belgian, Roumanian and Russian interests. Whether such bids were made but rejected, or whether Pangalos was debarred by the aforementioned British and the American firms from seeking such offers is not known.[34]

2.2. The Campaign Waged Against the R.S.C. and the Graeco-Bulgarian Frontier Incident

As described above, in 1926 the government provoked the League of Nations on an economic issue. The year before, it attacked the autonomy of the League appointed R.S.C. on legal grounds and provoked a military incident on the frontier with Bulgaria. Both events are of importance because they were interpreted abroad as signs that Greece was 'increasingly' antagonistic towards the League and the post WWI international order.

Throughout its seven year existence, the R.S.C. was seen as one more agent of control -a state within the state. This was understandable, considering the large sums it handled and the number of civil servants it employed.[35] During 1925 antagonism against the R.S.C. peaked. It all started as follows: In the spring of 1925 complaints were lodged by disgruntled officials of the R.S.C. against the chief of transport of the R.S.C. at Salonika and the director general of the settlement programme in Macedonia. The first was prosecuted on the grounds that there had been a waste of funds, and the second was charged with misconduct because a contract he signed for the construction of 4,000 refugee houses had not been drawn in the manner prescribed by government regulations.[36] The R.S.C. protested that the enactment of judicial proceedings against its employees was in violation to the Geneva Supplementary refugee loans because the funds and contracts of the R.S.C. were exempt from government regulation. The government replied that the judiciary were 'independent' in the exercise of their functions! In addition, the accused employees of the R.S.C. were brought under the jurisdiction of the military court.[37] Howland, the president of the R.S.C., threatened to place the subject of the 'war' against the R.S.C. before the Council of the League at the meeting of September 1925. As a result, at the end of August 1925 the R.S.C. directorates in Macedonia, Thessaly and Thrace which had been suppressed by Pangalos on seizing power were reestablished and the jurisdiction of military courts over the accused employees was cancelled. In December 1925, the charges that had been brought against the employees of the R.S.C. were also dropped.[38] Thereafter, the government never again tried to challenge the authority of the R.S.C. However, throughout 1926 relations between the Commission and the government remained tense as a result of government refusal to settle its £400,000 debt with the R.S.C.[39] Undoubtedly, this factor and the preceding legal battle were in part responsible for the government's inability to raise a supplementary League loan in 1925-1926.

The second provocation during 1925 was the Graeco-Bulgarian frontier incident. Following the Neuilly Convention of 1920 and the population movements which took place after the Asia Minor debacle, disputes at the border posts along the Graeco-Bulgarian frontier became usual.[40] The most important incident occurred in October 1925. On the 19th, the two national frontier posts opened fire at Demir-Kapu, a remote site along the border north east of Salonika. Three days later, although the "conflagration was dying down of its own accord", Greek troops entered Bulgarian territory through the Struma Valley.[41] The League of Nations ordered Greece to evacuate the occupied territory and charged a reparation fine amounting to £45,000.[42]

Interestingly, according to the League of Nations archive, before the Greek troops evacuated Bulgarian territory Salter considered the possibility of enforcing economic sanctions (i.e. a naval blockade and financial embargo). However, he dismissed such a measure before the Greeks withdrew. He gave the following three reasons for his decision: First, that a naval blockade or cutting off financial relations would further impede Greece from attaining stabilization. Second, if the blockade was long "the customs receipts would become insignificant and the commission [i.e. the I.F.C.] would not have sufficient funds to pay full debt service", considering that half of the revenues of the I.F.C. were in the form of custom duties,[43] Third, due to the importance of the U.S.A. both as a source of supply and as a market for Greece, America's intentions would have to be ascertained beforehand. If the U.S.A. ignored the blockade, the League would have to face "the dilemma of either stopping U.S.A. ships under serious protest or going back on her decision".[44] From Salter's 'exposition' it is clear that although the League saw its role as an innovator -promoter of a new order- it was aware that it did not have a completely free hand in Greece, given the preexisting presence of the I.F.C. and the growing role of an independent actor: the U.S.A. (Let us remind the reader of the fact that the League, out of gratitude to the U.S. relief operations in Greece, appointed an American to head the R.S.C.)

In sum: In 1924 the League stepped into Greece in a hesitant fashion as it did not perceive the need for a comprehensive stabilization plan. At the time it was optimistic regarding Greece's financial and political prospects. (But, perhaps its initial reluctance to interfere in monetary affairs was in part due to the fact that another tool of international control, the I.F.C., was already established in Greece.) However, the League soon realized that it had 'misjudged' the situation. For during 1925 and most of 1926 the government displayed in more than one way that it had not yet adjusted to the postwar financial order: It violated the Geneva Supplementary refugee loans of September 1924, antagonized the R.S.C. and displayed military might. The League did not observe these developments passively. In each instance Athens was 'scolded'. The end result was the continued closure of foreign capital markets.

3. Foreign Coercion in Another Guise: The British War Debt Issue

One of the few topics of the interwar economy to be analyzed in detail is the British war debt debate. However, existing scholarship has failed to recognize that the British Treasury in close cooperation with the Bank of England exploited the war debt embargo as a means to "force" Greece to stabilize.[45] It has also failed to assess the repercussions of the embargo on the inflow of foreign capital.

3.1. The Problem Posed

The gross debt Greece incurred to Britain as a result of WWI was £20,710,312.[46] By Greek standards this was a large amount. It represented 80% of her total war debt and was equivalent to 40% of the nominal value of the foreign loans raised by the government during 1922-1932. However, for Britain, Greece's debt amounted to only a small fraction of the total £6,500,000,000 owed by her ex-allies.[47] Thus, once again, Greece was in a lopsided relationship with Britain.

Table 1

Greek Gross War Debt Capital and Interest due on March 31, 1925

i. Material supplied under 1918 agreement	£ 8,941,708
ii. Material supplied under 1919 agreement	£ 1,712,940
iii. Cash advances to Provisional Government (1916-17)	£ 1,296,250
iv. Cash advances supplied under 1918 agreement	£ 8,759,414
Total	**£20,710,312**

Source: B.G./T.A.,Document 98/97, titled: 'Greek war debt', March 31 1925.

London had been pressing to open negotiations from 1920 onwards, but Athens was in no hurry to reach a debt funding agreement. One reason being its weak financial position, a weakness intensified by the fact that reparation payments from the ex-enemies were much less than those agreed upon at the Spa Conference in July 1920.[48] Another reason was resentment towards Britain for the post-November 1920 financial embargo.[49]

3.2. The Negotiations

3.2.1 The determination of the size of the gross debt (October 1924-August 1925)

Suddenly, in late October 1924 the government agreed to open discussions with the Treasury about the value of the war material.[50] It had been agreed during the war that the value of the war material supplied would be determined after the end of hostilities. (See Table 1 above for a breakdown of the gross debt.) This volte face was the result of two developments. On the one hand, the British Treasury had become more persistent since 1923, because it had started paying annuities amounting to £33,000,000 to the U.S.A.[51] On the other, the Greeks were making preparations for the flotation of the First Refugee Loan and saw this move as a good opportunity to please Niemeyer who as already noted was a key Treasury and League of Nations official. Niemeyer's terms were accepted almost unequivocally by Emmanuel Tsouderos,[52] who had been placed in charge of the negotiations.[53] The preliminary agreement signed in August 1925 was a tactical success for Britain.[54] Greece accepted the Treasury's estimates of the value of the war material and the size of the gross war debt.[55]

The city imposes an embargo

Shortly after the signing of the preliminary agreement, the Treasury wished to commence negotiations for the determination of the net debt (i.e. the proportion of the gross debt that would actually be repaid) and the mode of repayment. But, the Greek government was not willing to discuss and the Treasury opted for the use of coercion. It ordered the City to refrain from raising fresh loans for the Greek government until the war debt towards Britain was settled. No formal declaration or diplomatic representation was made announcing the imposition of this embargo. As a result, it is difficult to ascertain the exact date when it was enforced. However, a careful reading of the archival material suggests that the embargo was imposed in the late autumn or of 1925 or early winter of 1925-1926.[56]

The British establishment did not want this embargo to be publicized. Pointedly, the R.I.I.A. in its study The Problem of International Investment, published in the thirties, fails to mention the war debt embargo, although it was applied indiscriminately to all of the countries that had failed to settle their war debts with Britain.[57] It should be underlined that when the war debt embargo came into effect Greece was already blacklisted in the City. It may even be permissible to argue that this embargo was superimposed on a preexisting unofficial embargo which had been imposed because the banking establishment in Britain was displeased with the post December 1924 resurgence in deficit financing and irredentism. (For deficit financing see Book I, Section III, Phase One).

3.2.2 The determination of the net debt and mode of repayment (February 1926-April 1927)

Negotiations held under the Pangalos regime

In February 1926 the Greek government again agreed to open negotiations on the net debt. It had high hopes as in late January Britain had signed a debt funding agreement with Italy, which was highly adavantageous for the debtor.[58]

Not surprisingly, Greece proposed to the Treasury that it receive equal treatment with Italy. Namely, that the net debt should not amount to more than 48% of the gross war debt.[59] But Niemeyer refused this proposition because he was eager to prove to the opposition in Britain that the Treasury had not lost control and would not use the Italian case as a precedent for future agreements.[60] Greece's representatives, (the governor and deputy governor of the N.B.G.), were willing to drop the claim for equal treatment with Italy in the interest of a quick settlement. But Pangalos did not agree.[61] The dictator preferred to borrow foreign capital on embarrassing terms outside Britain rather than to kowtow to the British Treasury. (See above section on the Swedish Match Loan and Book II, Section I, Chapter 3)

When the negotiations reopened in May 1926 under Venizelos,[62] a 'radical' memo was put forward to the Treasury demanding that on economic grounds (i.e. Greece's low payment capacity) and for moral reasons (the Allied desertion of the Asia minor Campaign), the net debt should amount to only 23% of the gross debt.[63] In addition, Venizelos proposed that the Treasury settle its obligation to provide the remaining £5,000,000 book credits- owed to Greece under the Paris Agreement by arranging with the City for the flotation of a 5% £5,000,000 loan to be used partly by the R.S.C. for the settlement of the refugees, and partly by the N.B.G. to improve its gold cover.[64] But, the Treasury refused. The reply of Churchill, the Chancellor of the Exchequer, was brief and to the point. He did not even bother to comment on Venizelos' proposition regarding the book credits. And, though he acknowledged that Greece had "emerged from the wars with Germany and Turkey weakened and harassed with troubles, both external and internal", he concluded that she had the capacity to repay the gross debt in full. Churchill maintained that what Greece suffered from was not a lack of funds but 'unnecessary fixed costs' such as the 'gracious' compensation of the war victims and the far 'too lavish' rearmament expenditure. The Chancellor of the Exchequer had touched a sensitive spot. Approximately 6.5% of the state budget was allocated to pensions for the war victims. Moreover, expenditure on the army and the police as a percentage of the state budget was twice that spent in other European countries! Clearly, what the government perceived as top priority financial obligations from a socio-political and military-strategic point of view, were considered by her supervisors as foolish goals.[65] Venizelos was so infuriated by Churchill's response that he informed Treasury officials that "the negotiations would have to be put off to a more propitious moment".[66]

Table 2

The Shifts in the Negotiation Positions Regarding the Determination of the Net Debt

I. February 1926	
Greek position :	net debt= 48% of gross debt.
British position:	net debt= 100% of gross debt.
II. May 1926	
Greek position :	net debt= 23% of gross debt. All of the remaining book credits should be granted.
British position:	net debt= 100% of gross debt. Britain has no obligation to provide remaining book credits.
III. Debt Funding Agreement of April 1927	
Britain agrees to accept a net debt equivalent to 55.5% of the gross debt. Greece in return accepts to drop its claim for the remaining book credits.	

Parenthetically, it should be noted that in early June 1926 the Treasury increased its indirect pressure on Greece. Namely, it widened the war debt embargo so as to include loans to Greek public bodies. This was a well timed measure for at the moment Hambros was preparing the flotation of a loan for the National Mortgage Bank of Greece.[67] Treasury intransigency and the widening of the embargo were interpreted in Athens as a reflection of the diminished strategic importance of the country. Tsouderos, more or less summed up the sentiments of the state when he wrote:

> "Since we did not succeed in maintaining the great Greece of the two continents, we are now considered indigues d'interet for Great Britain. The sceptres have passed to foreign [i.e. other] hands".

Apparently, Thanassis Aghnides of the League Secretariat was the only Greek to realize that the uncompromising attitude of the British was directly related to Greek militarism, antagonism towards League supervision, and the ad hoc fiscal and financial policy of the dictator.[68] But, the Greeks -regardless of political affiliation- downplayed the significance of these factors.

Negotiations after Pangalos

After the downfall of Pangalos a spirit of conciliation prevailed on both sides. Financial stabilization under the auspices of the League of Nations became a prime goal for Greece. As this necessitated the flotation of a syndicated loan in the City, the government realized that it would have to become more compliant on the subject of the war debt. The Treasury for its part, without retracting from its basic position that Greece 'had the capacity' to repay the debt in full, announced in December 1926 that it would be willing to write off the debt for the war material if in return Greece desisted in its demand for the remaining book credits.[69] This last proposal was accepted by the government and finally on April 9 1927 a debt funding agreement was signed. The net debt was valued at 55% of the gross debt and the annuity charged was approximately £380,000.[70] Britain abandoned the right it had under clause 4 of the 1918 Paris Agreement to impede the government from raising new foreign loans and agreed to facilitate the flotation of a Greek Stabilization Loan.[71]

In order to set these negotiations in context, it seems appropriate to underline the following: First, that the Foreign Office repeatedly advised that a less hardline stance be adopted by London regarding the embargo.[72] Second, that since the Greek political establishment had accepted that a foreign capital inflow was a sine qua non for infrastructure development and ultimately the 'independence' of Greece vis a vis the Powers, it should have either opted for a quick albeit 'more costly' settlement of the war debt, or worked in the direction of stabilization. Had the political leadership given the bankers -Diomedes and Tsouderos- a free hand throughout the negotiations it is possible that a debt funding agreement would have been signed in 1925 not in 1927 and the war debt embargo would not have arisen. This antithesis between the politicians and the Greek banking establishment should be seen as one more example of the ongoing 'conflict' in terms of goals and policy orientation in the inner quarters of the state -that is between the government and the National Bank.[73] Government policy was short sighted, whereas the N.B.G. could have an overall view of the Greek economy, its structural restrictions, and its deeper relations with the world economy.

3.3. The Direct Impact of the Embargo on Foreign Capital Inflow and Stabilization

Although it became impracticable for the government to raise a loan for the refugees, stabilization, and the land reclamation of the Vardar valley, the war debt embargo did not altogether block foreign capital inflow. Infact, the total amount furnished to the Greek state and public bodies by the international capital market at this time amounted to £7,600,000. This was possible for two reasons. First, up to June 1926 the embargo was directed against the Greek government not public institutions.[74] Second, the Greek government resorted to the more expensive and smaller capital markets of Europe (i.e. Belgium and Sweden). But this does not mean that the embargo was of no significance. Possibly, had the embargo not been imposed, the government would have been able to raise larger sums abroad during the mid twenties and the momentum of infrastructure development during 1925 could thereby have been maintained. (For the impact of the embargo on the financing of public works see: Book II, Section I, Chapter 2)

Regarding the interrelationship between the embargo and stabilization two arguments in large part contradictory and opposing can be put forward. One is that the British Treasury through the embargo prevented Greece from reaching stabilization at an earlier date. The other -opposing argument- is that by refusing to compromise, the Treasury inspired prudent fiscal and monetary policy which ultimately fostered political stabilization. The result was improved relations between Greece and the League. In a strange way, it seems necessary to accept both of these arguments for they are not in our opinion mutually exclusive.

References

1. See Harry Psomiades, "The diplomacy of Th. Pangalos 1925-1926", *Balkan Studies*, Vol.13, 1972, No. 1 pp.1-16.

2. Throughout the Pangalos dictatorship the £400,000 debt which the government amassed towards the R.S.C. was not repaid. For this and the problems that the R.S.C. encountered with the government see: FO 371/11340/C80993 Mackillop to Chamberlain, August 6 1926. Also, B.E./C.B.P.326, Vol.3, memo titled: 'Greece-Greek Refugee Settlement Commission', February 13 1926.

3. As a result, one year after the flotation of the £12,300,000 loan (i.e. in December 1925) the R.S.C. had only £2,800,000 in its hands while there remained 200,000 refugees to be provided for. Source: B.E./C.B.P. 326 Vol.3, A note titled: "Greek Refugee Settlement Commission", February 13 1926.

4. *Καθημερινή*, August 6, September 26 1925.

5. That there existed a dichotomy between the Greeks and its foreign supervisors with respect to the issue of control is also certified in reports which appeared in September in the Greek press which insinuated that the City was contemplating the flotation of a fresh loan under the condition that it would be under League control. Source: *Καθημερινή*, September 26 1925.

6. According to the description given by Sayers in history of the Bank of England: "In 1925 more was asked for by the Greeks, but their refusal to accept effective foreign control wrecked their chance of immediate help from the Bank or the League". Source: Sayers, *op.cit.*, p.199.

7. B.E./ C.B.P. 326, Vol.3 Precis of Mr. Howlands Letter to the government dated September 26 1925; and C.B.P. 326 Vol.3, A propos Salter visit October 13 1925.

8. B.E/C.B.P. 326 Vol.3: Greek Refugee Settlement Commission-Notes on a Meeting held on 13th February 1926. For the efforts of the government to raise a domestic loan in December 1925 see: *Καθημερινή*, December 13, 15 1925; February 9 1926. Also, FO/371/10765/C16591, M.Cheetham to Chamberlain, Athens December 17 1925.

9. *Καθημερινή*, December 12 1925.

10. For the problems of the R.S.C. and its effort to conclude a supplementary loan see: M.Cheetham to Lampson, December 17 1925, FO371/10765/C16647; M.Cheetham to Sir Austin Chamberlain, December 17, 1925.

11. Reportedly, Pangalos in January 1926 had held discussions with an unspecified (non British)foreign group for a £10,000,000 loan not to be issued under League supervision, and not to be placed at the disposal of the R.S.C. Nothing came out of this attempt, and as a result, it is possible that by February 1926 the dictator no longer outruled the possibility of a League loan, though he officially did not condone it. Source: B.E./C.B.P.326 Vol.3, memo titled: Greece - Greek Refugee Settlement Commission, February 13 1926.

12. B.E./C.B.P. 326, Vol.3 Note on the Greek Refugee Settlement Commission prepared on February 13 1926. This was the first official document in the archives which directly mentions the existence of a war debt embargo.

13. The Bank of England was going to provide £500,000, whereas Hambros and the N.B.G. were to grant the amount of £250,000 each. It was agreed that the interest rate charged would be 1% above the going bank rate but not less than 5% .This advance was going to be secured against the unissued bonds of the 1914 5% loan. Source: B.E./C.B.P.321 Vol.3, document titled: Greek pre-loan advance, July 21 1926.

14. B.G./T.A., Document 98/120: Aghnides to Tsouderos, May 6 1926. Also, Document 98/122: Aghnides to Tsouderos, May 11 1926.

15. B.G./T.A., Document 98/109: League of Nations to Howland, no date. Also, Document 98/43: Dendramis to Tsouderos, May 6 1926. Also, Document: 98/44:(X) to Tsouderos, June 6 1926.

16. For the fact that the I.F.C. concurred with the Bank of England and the League of Nations, that the flotation of a supplementary refugee loan would have to be connected with the issue of stabilization see: C.B.P. 321 Vol.3 :Interview between the governor and the M. Roussin on June 2nd 1926.

17. B.G./T.A., Document 98/57: Dendramis to Tsouderos, June 11 1926.

18. For Salter's differentiation with the Treasury on the issue see: B.G./T.A., Document 98/110: League of Nations to Cher Ami, (Tsouderos?) August 12 1926. Also, 98/114, Aghnides to Tsouderos, August 25 1926. In fact, through Dendramis (an employee at the League Secretariat) he advised the government to request from the Treasury not to connect the war debt issue with the flotation of a Second Refugee Loan.

19. FO/371 11341 C133229 Minutes prepared by Harvey, December 17 1926.

20. For Greek government request see: FO 371/ 11340 C8983. Minutes August 3 1926. The official answer of the Foreign office to Kaklamanos is found in B.M./V.A., File 46: Lampson to Kaklamanos, August 12 1926. This answer is identical to the wording of the letter sent to Lampson from Waley at the Treasury two days earlier. See: FO371/ 11340 C8984 S.D. Waley to N.W. Lampson August 10 1926. It should be noted that the official announcement the Foreign Office made in August 1926 to the Greek minister, to the effect that it could not commit itself to refrain from raising the subject of the war debt when Greece applied at the League for a supplementary loan, was mot a mot dictated by the Treasury.

21. This line of approach was also adopted by Sargent and Howard Smith see text again and reference 19 above.

22. This Swedish world trust gave similar but larger match monopoly loans to Roumania, Yugoslavia, and Hungary. I.T. Berend and G. Ranki, *op.cit.* pp. 219, 225. Also: R.I.I.A., The Balkan States, I. Economic, (Oxford, 1936), p.43. For the involvement of this Trust in Poland see: Z.Landau and J.Tomaszewski, "Foreign policy and international business in Poland", in A.Teichova, M.Levy-Leboyer, H. Nussbaum, (ed.), Multinational Enterprise in Historical Perspective, (Cambridge, 1989).

23. Stephanides *op.cit.*,pp.242-243.

24. That the concessionaire was close to Hambros is stated in: U.S.A./NAT,MA5/S.D./M443/ 31 / 868.51 Economic Matters: H.E.Cole to Secretary of State, August 13 1926.

25. U.Wikander, Kreuger's Match Monopolies, 1925-1930 (Case Studies in Market Control through Public Monopolies), (Stockholm, 1979), Appendix VIII.

26. The ease with which Greece gave the concession to the Swedes for selling matches is in stark contrast to the insistence of Turkey that the concessionaires set up a domestic match industry. See: Wikander, *op.cit.*, pp.65-70.

27. According to the liberal politician Kafandaris the deficit was in the area of 1,400,000,000 - 1,500,000,000 drs. and the Swedish loan provided about 400,000,000 drs., i.e. it covered about 1/3 of the budget deficit. B.M./V.A., File 328, Kafandaris to Venizelos, January 5 1927.

28. L.N./ S119/Article 16 Economic Sanctions, memorandum prepared by Sir Arthur Salter, titled: "The Graeco-Bulgar incident 'sanctions'", October 1925.

29. Reportedly, "the proceeds of the loan were wasted and not spent productively". Stephanides, *op.cit.*, p.243.

30. For the stance of the League towards this loan and its expost waiving of an objection, see: B.G./T.A., Document 98/110 Aghnides to Tsouderos, August 12 1926. Also, M.F.A./H.A., A Political 1926 A/7a Loans Negotiations, Swedish loan file: Sargent to Melas, September 21 1926. For the fact that the government asked for the permission of the allies after the conclusion of the loan. See: U.S.A./NAT/MA5/S.D./M443/ 31/868.51 Economic Matters: Greek Legation in Washington to Secretary of State July 12, 1926.

31. Standard Oil had invested $2,000,000 in Greece. It owned a large storage and distribution stations, and a can factory in Pireaus. The Asiatic Petroleum had invested on its part some $1,000,000 in Greece. Source: R.W.Dunn, American Foreign Investments, (London), p.151. Also, see: H.M.S.O., Department of Overseas Trade, (R.M.A. Turner), *op.cit.*, p.29.

32. U.S.A./NAT/MA5/S.D./M443/ 31/868.51 Economic Matters: August 13 1926, Conversation with Mr. Hamlet of Standard Oil.

33. U.S.A./NAT/MA5/S.D./M443/ 31/868.51 Economic Matters: Cole to Secretary of State, August 13 1926.

34. It is not known either, whether the U.S.A. or the British government took any measure to defend the defacto monopoly position of these two firms. However, it is a fact that the Standard Oil turned for 'protection' to the State Department. For source see reference 32 above.

35. In total the R.S.C. handled approximately £13,000,000 and it employed around 2,000 employees at its peek. Also, it settled roughly half a million refugees in the rural areas. See reference 3 in Book I, Section I.

36. The contract under accusation was the one signed with Malamos for the construction of 4,000 refugee houses. For a detailed description of the events and the role of the N.B.G. in resolving the crisis situation that developed in July 1925 see: FO371/10765, Minutes, August 12 1925; also: N.B.G./H.A., X Loans, A' Public loans, File 149, Refugee Loan: confidential memo titled: "The position of the R.S.C.", September 8 1925.

37. Ladas, *op.cit.*, pp.632-633.

38. A decree law was passed in December 1925 which stipulated that only the minister of Justice and the R.S.C. could take judicial actions against the employees of the R.S.C. Source: League of Nations, Official Journal, February 1926, p.322: April 1926, p.554.

39. B.E./C.B.P.326 Vol.3: Note titled: "Greek Refugee Settlement Commission", February 13 1926.

40. The monthly summary of the League of Nations, October 1925, Vol.V, No.10, " THE GRAECO-BULGARIAN AFFAIR" pp.4-5. Also, Economic Yearbook of Greece for 1929, pp.9-10. Also, Ministere des Affaires Etrangere, La Grece Actuelle, (Athens, 1933), pp.236-237.

41. The monthly summary of the League of Nations, *ibid*, p.4. For a detailed description of this episode see: League of Nations Report of the Commission of Enquiry into the incidents on the frontier between Bulgaria and Greece, Belgrade November 28, 1925. C 727. 1925 VII. pp. 256-260. Also, J. Barros, The League of Nations and the Great Powers: The Greek-Bulgarian incident, 1925, (Oxford, 1970).

42. The murder on Greek soil, in August 1923, of an Italian General who was on an assignment in connection with the delineation of the southern border of Albania, led to the occupation and bombardment of Corfu by the Italians. For details see: J.Barros, The Corfu Incident of 1923: Mussolini and the League of Nations, (Princeton, 1965).

43. L.N. S119/Article 16 Economic Sanctions, Memorandum prepared by Sir Arthur Salter, October 1925. For a detailed description of the legal framework available for the application of economic sanctions (i.e.how sanctions should be applied when the need arose) see: L.N. S119/ ARTICLE 16 ECONOMIC SANCTIONS, Legal section memo prepared by Dr. Van Hamel, November 17 1925, titled: "Sanctions"; and also memo signed by A.W. (captain Walter's?) titled: "Graeco- Bulgar incident Sanctions", dated 21.1.1926.

44. Parenthetically, it must be noted that Salter had not done his homework carefully. He wrote that the agricultural position of the country was such that a blocade was"not likely to cause any very grave immediate difficulties in connection with the food supplies of the people", nor was industry to suffer because as noted Greek industry was characterized by a high degree of isolation. In his exact words: "The majority of the industries however, are not dependent on foreign raw materials other than coal, and a number of them require little mechanical power. These industries are further only dependent to a limited extent upon foreign markets." Salter was wrong, though it was true that industrial exports were limited, it was the case that agriculture was heavily dependent on foreign markets both for exports and imports. Source: L.N./S119/Article 16 Economic Sanctions, Memorandum prepared by Sir Arthur Salter, October 1925.

45. The most thorough examination of the war debt issue has been made by N. Pandelakis, Συμμαχικές Πιστώσεις, κράτος και Εθνική Τράπεζα (1917-1928) (Allied Credits - The State and the National Bank of Greece (1917-1928)), (Athens, 1988). Another source is Th.Veremis, Οικονομία και Διδακτορία, η Συγκυρία 1925-1926 (Economy and Dictatorship, The Concomitance 1925-1926), (Athens, 1982).

46. The amount quoted for Greece represents capital plus interest up to 1924.

47. P.T. Ellsworth, The International Economy, (New York, 1964),p.404.

48. Namely, whereas Greece was awarded £115,000,000 in reparations, during 1920-1924 she received payments for less than £1,000,000. Infact, the larger part of this 'pittance' was not even paid out in cash.

49. The Greeks were also irritated by the fact that the exallies postponed settling the damages they had done in Macedonia during the war. Sources: B.G./T.A. Document 98/72, memo prepared by Tsouderos on June 14 1926; also, Document 98/32, titled: 'How to effect an equitable settlement of Greece's war debt' by Tsouderos, (no date).

50. On December 22 1921 the Gounaris Horne Agreement was signed whereby the government undertook to approve the Treasury's estimate that the debt for the war materials was a 'round sum 'of £9,000,000. The Greek government agreed to repay this debt in full and renounce its claim to the remaining book credits that had not been provided to her as a result of the financial embargo of November 1920. In return, the Treasury agreed to help the government to raise a £15,000,000 loan in the City. But no loan was raised and the Gounaris Horne agreement was never ratified by the National Assembly. As a result, thereafter the Greek government treated the concessions it made under this agreement as a dead letter. Source: B.M./V.A., File 44: Copy of Gounaris Horne Agreement December 22 1921. Also, B.G./T.A., Document 98/124: Niemeyer to Tsouderos, October 8 1924 and 98/128: Tsouderos to Niemeyer October 29 1924.

51. FO 371/11342/C7433/ 382/19, Churchill to Venizelos, June 30 1926.

52. For the draft agreement text prepared by Niemeyer see: B.M./V.A., File 44: 'Draft Agreement Between the British and Greek Governments in regard to War debt', February 1925. For the overcooperative spirit of Tsouderos see: B.M./V.A., File 272, Tsouderos to Nimeyer, February 14 1925; N.B.G./H.A.,XXXIII Miscellaneous, File 63,British war debt: Niemeyer to Tsouderos, January 28 1925 and February 17 1925.

53. B.M./V.A., File 44, Tsouderos to Ministry of Foreign Affairs, March 2 1925.

54. Had Tsouderos got his way this agreement would have been signed in the early spring of 1925. This preliminary agreement was signed by the Pangalos government. A copy exists in B.G./T.A., Document 98/87, 'Agreement between British and Greek Governments in regard to War Debt', August 31 1925.

55. According to the Treasury the value of the war material (without accrued interest) amounted to £9,000,000. From this point onwards the Greek government assumed responsibility to service and amortize annual (but renewable) 5% sterling Treasury bills amounting to the value of the gross debt (i.e. the £9,000,000 for the supply of war material and the £6,500,000 for the book credits). The idea being that if in one year Greece had not reached a final debt settlement it would be obliged to start paying interest on these bills.

56. On October 8 1925 a supplementary agreement was signed whereby the Treasury agreed to renew its Treasury bills for a further period of 12 dates from their respective due dates. The due dates were August 1926 for the bills regarding the war material, and March 1926. This event testifies that a war debt embargo could not yet have been enforced. B.M./V.A., File 44, Protocol supplementary to the Agreement of August 31 1925, between the British and Greek governments in regard to the war debt, October 8 1925. For the fact that the embargo had been imposed by February 1926 see: B.E./C.B.P. 326 Vol.3, Minutes of a meeting held at the Bank of England on February 13 1926.

57. Incidentally, the R.I.I.A. refers to two other financial embargoes that were not only unofficial, but more importantly they were not strictly enforced. The one was the embargo placed on foreign lending during the war and the other was imposed in June 1924 as part of the preparations for the return to the gold standard. Source:R.I.I.A, (1937), p.134.

58. Till then Britain had signed agreements only with France and Roumania which were considered as being hard on the debtors. See: Veremis, (1982), *op.cit.*, pp. 96-97. Also: *Morning Post*, February 26 1926. Also, for Britain's settlements with France and Italy see: H. Moulton, L. Pasvolsky, World War Debt Settlements, (New York, 1937).

59. B.G./T.A., Document 98/3:Memorandum of Diomedes towards the Treasury, February 24 1926. In this Diomedes expounds the low payment capacity argument in detail.

60. B.G./T.A., Document 98/6, Kaklamanos to Tantalides, February 26 1926.

61. For the argument expressed in political circles that Greece deserved at least as good treatment as Italy, or that she should write off her war debt completely see article of Kofinas in *Ελεύθερος Τύπος*, April 10 1926.

62. B.G./T.A., Document 98/85, Roufos to Tsouderos(?), June 28 1926.

63. Also Venizelos suggested that the reparations Britain owed to Greece (i.e. £1,250,000) be deducted from the net debt.This amount had been agreed upon in the agreement of November 30 1925. Greece believed that the £1,250,000 recognized by the British for damages was an infinitesimal amount compared to the £32,800,000 it thought it deserved. Source: Veremis, (1982), *op.cit.*, p. 102.

64. The recent success with the U.S.A. debt funding Commission was a factor which probably influenced the Greek side to become more obstinate and demand the remaining book credits. (See: Book I, Section III, Phase Two). Also, *Καθημερινή*, May 16 1926. *Financial News*, May 19 1926.

65. For the fact that Greek expenditure on the army and the police was as a percentage of the state budget twice than what was spent in other European countries see: *The Economist*, October 16 1926. Indicative of the lavish expenditure on war victims is the fact that for the budget of 1926-1927 approximately 6.5 % was allocated to pensions for war victims. See: B.G./T.A., Document: 98/70, Societe des Nations, Committe Financier, F.286, a note prepared on Greece on June 7 1926. It should also be noted that in 1929 the state raised a £2,600,000 internal loan for the compensation of the victims of war. Source: Economic Yearbook of Greece for 1932, pp.561-562.

66. B.M./V.A., File 272, Venizelos to Churchill, July 6 1926.

67. We know of this extension of the embargo from a letter of Hambros to Tsouderos. This widening of the embargo remained in force until Greece signed the debt funding agreement with Britain in April 1927. See .B.G./D.A., Document 335, Hambros to Tsouderos, June 11 1925. Also see, B.G./T.A., Document 38/70: Diomedes to Drossopoulos, March 26 1927. Also, N.B.G./D.A., Document 346, Deputy Governor to Tsouderos, June 29 1926.

68. B.G./T.A., Documents: 98/3, Memorandum prepared by Diomedes for the British Treasury, February 24 1926; 98/40 Aghnides to Tsouderos June 1 1926; 98/54 Aghnides to Tsouderos, June 9 1926; 98/75 Aghnides to Tsouderos, June 16 1926. Also, see: *The Times*, June 16 1926. Also N.B.G./D.A., Document 339: Tsouderos to Diomedes, June 16 1926.

69. In October 1926, the Treasury as an act of goodwill towards the caretaker government had announced that it would renew for six more months the batch of bills it had issued as guarantee for the war debt. Source: B.M./V.A., File 46, Kaklamanos to Venizelos, November 14 1926 (annex three).

70. For the changed attitude of the Treasury see: *Ελεύθερον Βήμα*, October 21 1926. Also, Veremis (1982), *op cit.*, p.115. Churchill in June 1926 had offered an annuity of £500,000.Source: FO 371/11342/C7433/312/19, Churchill to Venizelos, June 30 1926.

71. K.Tsalikis, Το Εξωτερικόν Συνάλλαγμα εν τη Οικονομική Ιστορία της Ελλάδος κατά την Τριακονταετίαν 1898-1928 (Foreign Exchange in the Economic History of Greece during the Thirty Year Period 1898-1928), (Athens, 1929), pp.63-64.

72. Niemeyer of the Treasury was in charge of the war debt negotiations with Greece from the start to the end. Indeed, in the beginning of 1926 and towards the end of 1926 the Foreign Office urged the Treasury to soften its stance towards Greece. For the beginning of 1926 see: FO371/11342/C2668/352/19, Minutes, March 2, 1926. For the end of 1926 see Book I, Section II, Part 1.2.

73. B.M./V.A., File 44: Tsouderos to Greek ministry of Foreign Affairs, March 2 1925; Pandelakis, *op.cit.*, pp.299,234. For the fact that had Tsouderos had his way the preliminary agreement would have been signed in the spring of 1925 and not the summer of 1925: see N.B.G./H.A., XXXIII, Miscellaneous, File 63, British war debt : memo prepared by Tsouderos, March 12 1925.

74. We have included in this figure the loans granted to the Athens electricity concession, which was the largest foreign direct investment of the period. For the limits of the embargo see: B.E./ C.B.P. 326, Vol.3: Minutes of a meeting held at the Bank of England on February 13 1926.

SECTION III

FOREIGN FINANCE, CONTROL AND STABILIZATION

Introductory Comments

In 1927 Greece joined the list of countries subjected to League supervised reconstruction. Below, the developments that led to this new form of foreign intervention (Phase One), the details of the stabilization scheme (Phase Two), and the institutional factors responsible for its demise (Phase Three) will be described. Two themes will underlie the analysis. The first concerns the divergent economic philosophy of The Bank of England vis a vis the views of the Greek authorities. The two sides did not have an identical perception as to how stabilization ought to be attained and 'maintained'. The second, central to the analysis, is the underlying antagonism between the International Financial Commission and the League of Nations. The Bank of England kept the I.F.C. out of the stabilization programme of 1927-1928 inspite of the initiative the I.F.C. had taken in this direction in 1926. Once the programme was installed, coexistence between the representatives of these two organs of foreign supervision was not an easy affair.

Greek historiography and recent research have presented the League enforced stabilization plan in an incomplete manner, neglecting the two themes outlined above.[1] As a result, the reasons why Greece stabilized late has been insufficiently analyzed. In addition, the multifacet nature of foreign tutelage and the extent to which the stabilization plan and the reforms that it entailed were imposed by outside fiat has not been explored. Interestingly, the elder generation of leading public figures (such as Xenofon Zolotas and Panayotis Tzannetakis) who had a firsthand knowledge of the interwar period, downplay the significance of the League.[2] This is the antithesis of the attitude which prevailed during the twenties. Indeed, at the time there was a widespread tendency among politicians, academics, bureaucrats and journalists, to exaggerate the importance of the League and the foreign factor in general in Greek economic affairs. This difference in mentality can partly be explained by the fact that after WWII the Greek government through the Marshall plan experienced a type of control which though narrower was much more thorough and extensive.[3]

In phase One below the reasons why Greece was unable to attain financial stability in 1925 and 1926 will be presented. The problem was twofold. On the one hand, the state lacked the financial resources, the political determination, and in the last analysis, a clear perception of how to stabilize. On the other, it was not prepared to accept an extension of foreign intervention in order to attain this goal. Inevitably, a deadlock was created. Furthermore, as already noted militarism and irredentism enhanced antagonisms with foreign supervisors. With the benefit of hindsight, it can be argued that had the government and the National Bank been more compliant towards the League of Nations, the Bank of England (and the British Treasury) prior to 1927, financial reconstruction would have materialized at an earlier date.

PHASE ONE

THE I.F.C. TRIES TO REESTABLISH ITS AUTHORITY OVER GREEK MONETARY AFFAIRS AND PROPOSES A PLAN FOR STABILIZATION (1925-1926)

1. The I.F.C. Parameter

The role of the I.F.C. in the stabilization of the drachma has been completely overlooked in the historiography. This is a serious omission for the reason that the first stabilization plan proposed was the one put forward to the Bank of England and the Greek government in 1926 by L.G. Roussin who was the British representative sitting on the I.F.C. If one individual instigated the banking reform it is he. The nature and extent of Roussin's involvement reveals interesting facets of foreign tutelage. His presence in Greece and involvement with stabilization reflected the desire of the British Treasury and the Bank of England to establish a closer supervision over Greek financial affairs. However, the fact that it was the League of Nations and not the I.F.C. that in the end 'enforced' a stabilization scheme indicates that neither the British financial establishment, nor the Greek government were in the last analysis willing to extend the powers of this 'parochial' 19th century 'international' institution.

At this stage a short resume of this chapter is useful. It will examine how the British Treasury came to appoint a full time member on the I.F.C. (i.e. Roussin) in early 1925. It will then describe the ensuing debate with the N.B.G. regarding monetary issues. Special attention will be given to the rejection by the National Bank of Greece and the Bank of England of I.F.C. stabilization proposals. Throughout, the analysis will delineate the developments in monetary affairs during 1925-1926 and the extent to which Roussin succeeded in convincing the Greek monetary authorities of the need to conform to an 'orthodox' mode of behaviour and drop their 'banking' school principles.

2. The British Government Appoints a Full Time Member on the I.F.C.

Prior to early 1925, the Counsellor of the Legation in Athens had served as British Member of the I.F.C. This arrangement had been made at the beginning of the 20th century when as an observer put it, "Greek finances were in so stable a position that the margin of services pledged to the I.F.C. were so wide that nothing more was needed but honest accountancy and a general supervision over the operation of the various guarantee loans".[1]

After November 1920 the situation had changed markedly, a full time member became necessary because the work of the Commission increased as a result of "the infinitely complicated condition of Greek finances" and exchange instability.[2] (For the rapid rise in state expenditure, large military costs, widening budget deficit, and the increasing monetary circulation see below Tables 1 and 2). Before 1920 the fiscal gap had been narrow, with the exception of the Balkan war years and 1918-1919. Moreover, the deficit had been financed through extraordinary taxation and foreign borrowing. After 1920, state expenditures rose markedly and the government resorted to the printing press and raising a forced loan in 1922 to finance the growing budget deficit. As a result, the I.F.C. and the principles of monetary prudence for which it stood were blatantly ignored.[3]

Table 1

Structural Disequilibrium: 1920-1927
(1920=100)

Year	Banknote Circulation	Government Expenditure	Cost of Living	Drachma/ Sterling Rate
1920	100	100	100	100
1921	143	134	113	207
1922	209	270	181	487
1923	310	519	336	867
1924	323	746	351	723
1925	354	878	403	914
1926	323	1109	465	1130
1927	329	1391	511	1077

Compiled from: Tables: 1b, 2a and 3a in Appendix 2.

Table 2

New Issues of Drachma Notes: 1920-1924

Date	Total Amount of Emission (mill. drs.)	Used for Tate Needs (mill. drs.)
May 27 1920	300	200
September 21 1920	400	400
March 31 1921	500	500•
February 17 1922	550	550
October 29 1922	600	600
March 3 1923	1,050	750
Total	3,400	3,050

• On the same date the National Bank of Greece supplied to the state from its reserves the amount of 50,000,000 drs.

Compiled from: Bank of Greece, The First Fifty Years of the Bank of Greece 1928-1978, (Athens, 1978), p.35.

The erratic fiscal and monetary policy pursued after November 1920 had a negative impact on the drachma. (See Tables 3a & 3b in Appendix 2) The annual income accruing to the I.F.C. did not rise sufficiently to counterbalance the steep decline of the drachma. The margin between the government revenues assigned to the Commission and the amounts necessary for the service of the loans under its supervision narrowed. The I.F.C. protested but was ignored. As long as Greece was debarred from the international capital market, the government considered that there was no reason why it should abide by orthodox economic principles.

Presumably, out of neglect the British did not even bother to assign a full time member. In an ironic way, the idea that the British government should appoint a full time financial expert (to the I.F.C.) was put forward to Norman by Diomedes in the spring of 1924, on the occasion of the discussions concerning the flotation of the First Refugee Loan.[4] It is difficult to ascertain Diomedes' intentions, whether he really wanted the advice of a foreign specialist, or if in the back of his mind he viewed such an appointment as a way to flatter Greece's supervisors and facilitate the recruiting of foreign capital, assuming that such a figure could act as a liaison between Athens and British financiers. But, regardless of his motives one thing became obvious, Diomedes would not welcome criticism of banking policy.

Apparently, the Diomedes proposal acted as an extra impetus for an appointment because "The same idea had already been germinating in the mind of the Treasury some time ago." Indeed, the British Treasury hoped that the "...Commission could, if it were more expert exercise a more decided influence...upon the machinery of Greek financial operations."[5] Roussin was chosen and he arrived in Athens during the first weeks of 1925. From the start he created havoc with his persistent effort to initiate Diomedes on the principles of the currency school.

3. The I.F.C. In Open Conflict with the N.B.G. Over Monetary Issues

When Roussin arrived in Athens euphoria triggered by the First Refugee Loan had already subsided. The City was once again 'worried' about Greece's financial position, and the price of Greek bonds had begun to fall.[6] Rumours were rampant in Britain that a military coup was 'imminent' and that the government was once again preparing to embark on an ambitious programme of rearmament.[7] On the financial front the improvement of the external value of the drachma that had occurred during November and December 1924 proved to be only a passing phenomenon. In January 1925 the drachma reverted to its familiar pattern of decline.[8] Thus, Diomedes' anticipation that, following the flotation of the First Refugee Loan, the drachma would 'stabilize' at a rate of no more than 250 drs. to sterling 'through the interplay of market forces' did not materialize.[9]

The Greek authorities did not believe that the renewed tumble of the drachma merited the adoption of a restrictive emission and credit policy. Herein lay the origin of the conflict between

Roussin and Diomedes. The story was as follows. In early February 1925 the National Bank of Greece proposed to expand the note issue by 600,000,000 drs., making a net addition of about 13% to the existing circulation.[10] (See Tables 2 above and in Appendix 2.) This new issue was to have a different orientation from previous post November 1920 emissions. The amount the N.B.G. proposed to issue on its own account (400,000,000 drs.) would be used to provide advances to agriculture, industry and commerce. In Diomedes view, this was warranted given the growth in output and transactions resulting from the refugee influx. As for the 200,000,000 drs. to be printed for state needs, it would not be 'wasted' as usual on current expenditure but would be allocated to the department of public works.[11]

The news that the N.B.G. wanted to print additional notes did not come as a surprise. A note expansion of 750,000,000 drs. planned for 1924, had been postponed because Norman and Niemeyer had advised that such a measure would be inappropriate before the flotation of the First Refugee Loan.[12] What was novel, was that for the first time since 1920, the National Bank now reverted to the practice of asking I.F.C. permission.[13] Roussin refused to approve a new emission. He maintained, that there was no essential difference between government inflation (printing notes in order to cover the budget deficit), and banking inflation (printing notes in order to meet the demand of producers for bank credits). To him both paths were destabilizing and caused the currency to depreciate.[14] Instead, Roussin countered that the N.B.G. resolve cash stringency through 'non inflationary' measures,[15] such as increasing the capital of the Bank or inducing the government to fund -by an internal loan- that part of the floating debt owed to the N.B.G.[16]

Diomedes was annoyed. In his opinion, the British member of the I.F.C. failed to grasp that the principle of monetary restraint could by no means be endorsed in a country "emerging from an acute crisis and making marked efforts to gain its equilibrium".[17] Without realizing that they had already given tacit approval to Roussin, Diomedes asked Niemeyer and Norman to 'put some sense in Roussin's head'. They replied that the National Bank should not take any decision without reaching prior agreement with the I.F.C.[18] Obviously, Roussin had convinced London that the credit policy of the N.B.G. was responsible for the continuous fall in the external value of the drachma. Although Diomedes did not obtain the consent of the I.F.C., in March 1925

400,000,000 drs. were issued for the needs of the National Bank.[19] Technically, this emission was not an act of defiance towards the Commission. According to article 30 of the Law of Control of 1898 the National Bank of Greece had the right to increase the note circulation without asking the permission of the I.F.C. "providing that this was done for the needs of commerce".[20]

Nevertheless, this emission was interpreted by Greece's economic supervisors as an outright provocation. From a tactical viewpoint it was wrong for Diomedes to ask for the I.F.C. permission and then 'discover' that according to the Law he did not need it. Also, the governor of the National Bank made a serious mistake on a matter of substance: he employed the second tranche of the First Refugee Loan of 1924 held by the R.S.C. at the National Bank of Greece as cover for the new emission without the knowledge and consent of either the R.S.C. or the Bank of England. Infact, Diomedes had misled both institutions.[21] Thus, in the last analysis, it is not surprising that there was a belief in British official circles that Greek bankers were a peculiar species.

This incident shows that after Roussin's arrival, the British official circles acquired a more informed view of financial developments in Greece. What is more, the 'reactions' surrounding the new emission brought to the surface the familiar problem of the I.F.C. versus the N.B.G. which were now compounded by the personal antagonism of Roussin -a firm follower of the currency school- and Diomedes who maintained that 'free' or expansionist banking was necessary for the economic development of the country.[22] It has been argued, that animosity between Roussin and Diomedes was solely of an ideological nature.[23] However, it must be underlined that more was at stake. Intellectual antagonism between the two men reflected the underlying conflict of interest between the two institutions they served. From the point of view of the bondholders it was of paramount importance that Greece acquire a stable exchange, whereas the N.B.G. was more interested in the country's economic development prospects than in stabilization per se. Moreover, the two men were involved in a power game. Roussin upon arriving in Greece tried to reestablish the authority of the I.F.C. as regulator of monetary policy and Diomedes resented this.[24] Thus, it was not surprising that Roussin complained that Diomedes was not frank, lacked a firm grasp of basic economic principles, and that he did "...not appear to desire the advice or cooperation of the Commission, except insofar as its consent is [was] required for his inflationary projects."[25]

In the last analysis, Roussin was disappointed not only with the N.B.G. but also with his superiors. In a moment of exasperation he wrote to Sir Henry Strakosch, "...I should have liked to see their [i.e. the I.F.C.] powers reaffirmed in the protocol of the Refugee Loan."[26] This comment is intriguing in that it leads to the inevitable question of whether or not the Bank of England and the League of Nations wanted to reaffirm the powers of the I.F.C. Indeed, . they were not in favour of giving too much 'influence' to the Commission. Why this was so will be explained in detail below.

4. Roussin's First Stabilization 'Plan' and *The Times,* Articles

The letters of Roussin to Niemeyer and Chamberlain show that from his early days in Greece he was concerned to effect a stabilization plan that would be supervised by the I.F.C.[27] His first stabilization 'plan' was put forward in a paper to the National Bank of Greece in July 1925. Apparently, the Bank of England was not involved.[28] It was a vague proposal and no mention was made of the role that the I.F.C. was to play although in private Roussin did not hide his desire that stabilization be undertaken under the Commission's supervision.[29] Roussin argued that Greece would be able to reestablish confidence in the drachma and draw on foreign capital only if it acquire a sound monetary system based on gold. He maintained that if the authorities espoused monetary orthodoxy and if the immobilized reserve of the N.B.G. was liquidated, it would be possible to establish convertibility of the drachma at around 300 drs. to the pound sterling.[30] Roussin's proposal fell on deaf ears. Diomedes was deprecatory and proclaimed that thoughts for stabilization were still premature in view of "the unsettled state of the public finances, the large floating debt, the new situation created by the inflation itself, and the need for elasticity".[31] Meanwhile, the drachma continued to tumble and by mid-September 1925 it reached 335 drs. to the pound.

During the third week of September 1925, three articles in *The Times,* attacked the monetary policy pursued by the N.B.G. They reiterated Roussin's argument that the fall in the external value of the drachma was caused by the 'unsound' credit and banking policy of the

National Bank.[32] Though the articles were written by Milnes, financial editor of *The Times,*, it was believed that they were instigated by Roussin.[33] It is notable that *The Times,* conveniently forgot to mention that the National Bank had already by this date begun to display a less "unsound" policy. Namely, in August 1925 the discount rate had been raised from 8.5% to 10%; and from July 1925 advances remained almost stationary, in contrast to the previous twelve months.[34] Perhaps this owed something to Roussin's July 1925 stabilization proposition. (For discount rate see Table 3)

Table 3

Discount Rate (1914-1927)

From 11.11.14	6.5%
8.3.18	6 %
6.9.18	5.5%
1.1.20	6 %
15.5.20	6.5%
1.1.23	7.5%
23.2.25	8.5%
18.8.25	10 %
7.7.26	11 %
6.6.27	10 %

Source: G.Haritakis(ed.), Economic Yearbook of Greece for 1939, (Athens, 1940), part II, p.280.

The attack in *The Times* created a stir in Greece. The articles were reprinted and criticized in the local press.[35] The facts surrounding this affair have been chronicled in detail.[36] From the point of view of this thesis, the following two aspects of this incident are of interest. First, it underlines the close cooperation that existed between Hambros and the N.B.G. Hambros did not accept the interpretation of *The Times* and British official circles that the National Bank was responsible for the depreciation of the drachma. Sir Eric Hambro, in addition to expressing to Diomedes his sympathy, intervened in an active manner [37] by holding repeated conversations with the editor of *The Times* and expediting the publication of a response by Diomedes. Moreover, it was no coincidence that P.Freme, a stock broker close to Hambro, wrote to *The Times* in support of Diomedes and the policy pursued by the N.B.G.[38] Indeed, it is apparent that Hambros as the exclusive underwriter of Greek loans in Britain did not wish to see Greece's reputation damaged by an antagonistic campaign in the British press.[39]

The second, more important, aspect of the attack waged by *The Times* is that it appears to have had some impact on policy makers. It is notable that before printing in *The Times* the answer prepared by Diomedes, Milnes advised the deputy governor of the National Bank that the Greek government should make an official declaration to the effect that no new emission of money would take place and that the drachma would be stabilized.[40] Perhaps it is not coincidental that about one month after *The Times* articles, in an effort to combat exchange speculation, the government curtailed the freedom of the commercial banks to buy and sell foreign exchange.[41] This coupled with the forced loan of January 1926 (designed to amortize the floating debt owed to the National Bank and cover part of the current state expenditures) provoked a short recession.[42] The amount of money held by the public decreased by 25%.[43] The forced loan was well received by Roussin and officials of the National Bank. Roussin had proposed as early as February 1925, as had the officials of the Bank that the state diminish its floating debt. Finally, in addition, to the forced loan, the government attempted to limit the future growth of the floating debt by a forced consolidation of outstanding paper.[44] But these moves did little to halt the depreciation of the drachma.[45]

5. The Bank of England and the N.B.G. Reject Roussin's Second Stabilization Plan

Nevertheless, given the increased willingness of the Greek authorities to adopt a 'stringent' monetary policy, Roussin came up with a more concrete stabilization plan in March 1926. He now proposed that it would be possible to make the drachma freely convertible at a rate of 275 drs. to the pound sterling. This was an optimistic estimation considering that the going market rate was approximately 350 drs.[46] He based this calculation on the twin presumption that a foreign long-term credit of £2,000,000 would be made available and that the N.B.G. would be reorganized and liquidate its gold securities held as cover.[47]

Before presenting his plan to the National Bank, Roussin showed it to Niemeyer and Norman in the hope that the Bank of England would support it and grant the necessary credit.[48] Although not enthusiastic, they did not discourage Roussin from discussing the plan with the Greeks. In the end this scheme did not materialize as neither the Bank of England, nor the N.B.G. granted their approval. Diomedes, in contrast to what had been the case eight months earlier, no longer declared that it was premature to discuss stabilization. However, he turned down the Roussin plan for several reasons. First, he maintained that complete freedom in the buying and selling of foreign exchange would be impracticable given the high tendency for speculation in Greece. Presumably, he wanted stabilization without free convertibility.[49] Second, insufficient foreign credit was available.[50] Third, and more importantly, he reacted strongly to Roussin's proposal that a special issuing department be set up at the N.B.G. entirely independent of the other services of the bank and under the control of the I.F.C. Roussin wanted the issue department to be handled "as an extension" of the I.F.C.'s "supposed power of veto over new issues" for as long as was necessary in order to repay the credit that would be granted from abroad.[51] According to Diomedes a separate department of issue as existed in England, could not operate in Greece without significant difficulties. He pointed out that the National Bank was a mixed bank, institutionally similar to the Continental banks, and that on this account its large issue department could not be segregated from the commercial activities of the bank. Diomedes made a counterproposal which was not accepted, but which nevertheless is interesting because it reveals his aversion to institutional changes and to the I.F.C. He advised that the N.B.G. set up a special department charged with note issue and foreign exchange dealings. This department could be placed under the strict supervision of a temporary commissioner to be suggested (but not appointed) by The Bank of England on condition that London provided the necessary credit for stabilization. The commissioner would not have unlimited powers and his post would expire the moment the N.B.G. repaid the credit. In order to appease the I.F.C., Diomedes also suggested that the commissioner be refrained from interfering with the de facto rights of the I.F.C regarding the issue of banknotes.[52]

The Bank of England effectively blocked the second Roussin proposal by refusing to extend the necessary credit. It acted in this manner for a combination of reasons. First, because the National Bank of Greece was not keen on going ahead with the creation of a separate issuing department. Second, Norman did not agree with Roussin over the method to be adopted regarding stabilization. Whereas the latter favoured pegging the drachma, that is supporting its rate until it improved to about 300 and then stabilizing, the former was against pegging without stabilizing first on the grounds that this procedure had created difficulties in a number of countries such as Italy, Belgium, and France. Third, in contrast to Roussin who was eager that stabilization be effected at once, Norman expressed the fear that stabilization could not succeed given the anomalous political situation the Pangalos dictatorship was still in power. Fourth, Norman wanted to combine a refugee cum stabilization loan.[53] Moreover, though Norman did not openly suggest at any time that stabilization should not be carried out by the I.F.C., apparently he preferred such a scheme to be directly implemented by the League. In addition to the fact that the Bank of England had tight links with the League of Nations, possibly Norman realized that Greek resistance to a foreign supervised stabilization plan would be greater if 'The Control' (i.e. the I.F.C.) was placed in charge. After the rebuff of his second offer, Roussin's name drops out of the archives with regard to the subject of stabilization.

To recapitulate. The second plan of Roussin proved to be a premature step towards stabilization. The N.B.G. was not ready to embrace free convertibility and an institutional reorganization. Nor was it willing to extend the supervision of the I.F.C. over its affairs. The incident also serves to highlight the fact that the views of Roussin were not always identical with those of the Bank of England. Clearly, the policy of The Bank of England was determined by a number of factors. Overall, its priority was to serve its banking interests. However, it is apparent that at times the Bank also sought to accommodate the Treasury. A good example of this occurred less than four months after Norman refused to condone the Roussin stabilization plan. In June 1926, the deputy governor of the Bank of England made an interesting offer to Venizelos who was at the time in London holding negotiations with the Treasury about the settlement of the Greek war debt. If Greece agreed to repay the gross war debt in full, the Bank would be willing to open a credit of £2-3,000,000 for the stabilization of the drachma. Apparently no strings were attached (such as the demand that a special issue department be set up). It is permissible to assume that this offer was given under specific orders from the Treasury as a bait to push the Greeks towards reaching a speedy war debt settlement.[54]

6. Norman Suggests a Comprehensive League of Nations Stabilization Plan

By early 1926, Diomedes and Venizelos, each in his own manner, had started to give more serious thought to stabilization.[55] They acknowledged that foreign capital would be necessary for stabilization, but thought that external control could be obviated. In addition, both the banker and the politician were optimistic enough to belive that once funds were available from abroad the drachma would more or less stabilize on its own. They did not see the need for institutional reforms nor the enactment of a formal stabilization programme.

The first effort in the direction of securing foreign capital which would not embody foreign control was made by Venizelos. In ~~the~~ June 1926, while war debt negotiations were under way in London, he proposed to the Treasury that the balance of the credits owed by Britain to Greece according to the Paris Agreement of 1918 should be granted for the twin purpose of completing the settlement of the refugees and increasing the country's foreign exchange reserves.[56] Apparently, the Treasury did not even bother to discuss this proposal. However, knowing that Athens was eager by this point to stabilize, the Treasury pressed the Bank of England to make the offer mentioned above (see p.132). Failing to secure the credits,[57] another route was explored in early 1927 when the Bank of England was asked to back a policy of pegging the drachma. Specifically, a long-term loan of £6,000,000 was requested to double the country's foreign reserves so as to raise the gold and foreign exchange cover from 35% to 70%, and thereby give a large safety margin for a policy of pegging.[58]

Not surprisingly, Norman rejected this proposal. Not only did he believe that a cover of over 50% would be superfluous he was against pegging as a matter of principle.[59] Norman had already expressed his intense dislike of pegging when the second Roussin stabilization plan was discussed and he insisted that Greece, under the strict guidance of the Bank of England, should aim for a comprehensive stabilization which would combine the balancing of the budget, the complete liquidation of the government's floating debt towards the N.B.G. and a reform of the banking system. He insisted that Greece would have to raise one large League loan that would provide the capital necessary for the completion of the refugee settlement and the stabilization of the drachma. Norman suggested that as a preliminary measure the Greek government should make a formal request to the Bank of England to undertake a study of the financial situation of the country.[60]

Diomedes was not pleased with the idea of a comprehensive League of Nations loan. As he put it to Norman, stabilization was 'a question apart from the Refugee Loan. Diomedes' stance was dictated by two considerations. First, the procedure for floating League loans was time consuming and he was in a hurry to stabilize. By this point he realized that monetary instability was impeding the inflow of foreign capital, a top priority of the N.B.G. Second, he was wholeheartedly against League supervision over stabilization, not least because he did not want to carry out a radical banking reform that would alter the structure of the National Bank. In a letter to Venizelos on February 16 1927 he wrote:

> "The demands of the League were absurd because they dream of carrying out on their own an 'enquete', establishing 'controle' and a kind of 'reconstruction'. No one -at least in Greece- feels that such things are necessary.
> Good sense is sufficient, and I hope that we are beginning to develop this on our own.
> An outside imposition of good sense will not be tolerated by our people for better or for worse. I declared that if such a procedure set out the Greek government would prefer to resign from the idea of a loan".[61]

Diomedes' firmness on the issue of foreign control is not paradoxical, considering that he knew how the mechanisms operated and was well qualified to appreciate the consequences of foreign control. It can be argued that he was against the involvement of the League because he held a totally different theoretical orientation from the Bank of England and, by extension, the Financial Committee of the League regarding the nature of stabilization and the operation of central banking. Diomedes was not alone in resenting the League plan. As late as mid March 1927 the message conveyed to the Foreign Office by Greek diplomatic channels was that further foreign control was out of the question and that the financial stabilization of Greece lay outside the 'authority' of the League.[62]

This rejection of further League supervision is of special significance, considering that the political leadership after the downfall of Pangalos had become on the whole more compliant towards the League of Nations. Two indications of that changing climate were provided by more cooperative government dealings with the Refugee Settlement Commission and its assurances to the League on October 7 1926 that it would comply with the statutes of the Geneva Protocol of

September 1924, meaning that it would balance the budget and refrain from raising unproductive loans.[63]

Interestingly, the notion that a League stabilization programme would enhance British influence was feared and resented not only by Greeks but also by the French. In January 1927, while Salter was away from Geneva, J.Avenol (the Deputy Secretary General of the League of Nations) suggested to Dendramis (Greek Charge' d' Affairs in Bern) that the Bank of France should grant the necessary credits for stabilization. He argued that France was not happy with Greece's growing dependence on England, and he insinuated that if Greece resorted to the League, it could not escape from the financial imperialism of the Bank of England. Avenol also confided that France would not like certain rights -that traditionally belonged to the I.F.C.- to be "usurped" by the League. A few days later Diomedes passed by Geneva and Avenol repeated to him the same arguments.[64] Later, in March 1927, the general secretary of the French delegation in Geneva confirmed to Dendramis that what interested France more than anything else was to safeguard the existing rights of the I.F.C.[65]

In sum, prior to the end of March 1927, the main obstacle to stabilization was the refusal of Greece to accept further foreign supervision. Negotiations about the war debt also delayed stabilization.

7. Greek Views on Monetary Instability and Financial Reconstruction

Concern about the depreciation of the drachma was voiced in Greece as early as 1922. Academics, politicians, industrialists, and the National Bank of Greece, all agreed that the cumulative weakening of the drachma had a negative impact on economic activity and led to an everincreasing foreign subservience.[66] Only one vested interest did not complain, the commercial banks. Their 'indifferent' stance was due to the fact that they had profited by speculating against the continuous fall of the drachma.[67]

Regarding the question of the origins of this phenomenon there was a marked divergence of opinion. For example, the governor of the National Bank of Greece, Diomedes, maintained that the prime factor responsible for depreciation was the sudden upsurge in imports of machinery and basic foodstuff following the refugee influx.[68] Whereas, Kofinas, sometime minister of finance, believed that depreciation was due to the budget deficit and the 'inflationary policy' of the N.B.G.[69] Others, such as Tsouderos stood somewhere in between.[70]

With respect to the issue, of whether the drachma should be revalued or simply stabilized at the going market rate, initially there was a wide discrepancy of opinion. However, as time went by the proponents of revaluation became fewer.[71] By early 1927 a remarkable consensus had developed that the drachma should be stabilized at the going market rate and that political stability was a fundamental prerequisite for the success of stabilization.[72] However, not all were in favour of free convertibility, and the concept of legal stabilization was not popular with the liberals or the opposition.[73] In addition, the necessity of undertaking a radical banking reform was questioned by the commercial banks. Finally, it is noteworthy that the business community, though it was in favour of stabilization, was eager to establish that the circulation of money would be adequate to cover its needs and that there would not be a credit squeeze.

How did this internal debate relate to criticisms put forward by Greece's foreign supervisors regarding monetary instability during 1925-1926 ? Apparently, foreign criticism acted as a catalyst and provoked fears about monetary instability. By 1927, the climate was ripe for stabilization in that internal forces were pressing policy makers to take definitive action in this direction. But, the Greek perception of what had to be done did not coincide with the philosophy of Greece's foreign supervisors. (For example the former were in favour of de facto pegging whereas the latter advocated legal stabilization). This was the main reason why intense criticism was waged against the stabilization programme applied by the League of Nations.[74]

References

Introductory Comments

1. The most representative piece of the historiography is: P. Dertilis, La reconstruction Financiere de la Grece at la Societe des Nations, (Paris, 1929). For recent research see: M. Mazower, Towards Autarchy - The Recovery From Crisis in Greece 1929-1936, (Oxford University, Ph.D. Dissertation 1987).

2. This observation has been established from private discussions held with P. Tzannetakis in April 1983 and X. Zolotas in mid 1985.

3. The most thorough studies on the Marshall plan in Greece are: W.H. McNeil, Greece: American Aid in Action 1947-1956, (New York, 1957); C.A. Munkman, American Aid to Greece: A Report on the First Ten Years, (New York, 1958).

PHASE ONE

1. For those delegated to sit on the I.F.C. See: Bloudanis, *op.cit.*, pp. 116,119. Quotation is from FO371/9896/C3357: Foreign Office (signature illegible) to Cheetham, May 28 1924.

2. FO371/C15831/8304/19, Notes of H.Nicholson, titled: 'British representation on International Financial Commission at Athens, October 1 1924.

3. The last emission to be approved by the I.F.C. was the one made in September 1920 for the amount of 300,000,000 drs. See: Bloudanis, *op.cit.*, p.116.

4. FO371/9896/C3357: Foreign Office (signature illegible) to Cheetham, May 28 1924.

5. Same source as in previous reference.

6. For the rumours circulating in the City and the fall in the price of the bonds. See: N.B.G./H.A., XXXIII Miscellaneous, File 63, British war debt: Melas to Ministry of Foreign Affairs, February 3 1925.

7. Diomedes tried to assure Norman that militarism was dead. He claimed that the government was studying a plan that the British naval mission had proposed for the refurbishment of the navy. This plan was to be executed over a period of 5 years and to be financed from the ordinary revenues of the budget and not a loan. Implicit in his response was that the initiative for the rearmament plans had come from the British! See: B.G/T.A., Document: 102/11 Diomedes to Norman, March 3 1925. Also, see: B.G./T.A., Document: 102/4, Tsouderos to Norman or Niemeyer?, February 6 1925.

8. These movements were due to the fluctuations in the value of the drachma and not the sterling. The price of sterling in October 1924 was 358 drachmae. The following month it fell to 257,6 drs., and in December 1924 it was a mere 258.4 drs.. However in January it rose to 271,9 drs., and in February it went up to 296,3 drs.. Source: *Δελτίον Κινήσεως Αξιών εν τω Χρηματιστηρίω Αθηνών, 1920-1926)* 1927.

9. N.B.G./H.A., XXII Banks, N.B.G. and Foreign Banks, File 70, Correspondence with Hambros Bank: Hambro to Diomedes, October 21 1925. Also, G.H.L.A./D.A., Document 272, Drossopoulos to Diomedes, October 23 1925.

10. "A peculiarity of the Note Issue is that the National Bank makes a distinction between Notes issued for its own account and Notes issued for the Government's account: moreover, the latter are divided into various separate issues secured in different ways.... The amount which the Bank may issue on its own account is dr.763.405.000 but at present no part of this has been issued to the public." B.E., C.B.P.321 V.1, "Information derived from M.Anastassopoulos", January 1/8 1925.

11. N.B.G./D.A., Document 264: Tsouderos to Diomedes, February 26 1925.

12. N.B.G./H.A., XXXIII Miscellaneous, File 63, British war debt: Diomedes to Tsouderos February 21 1925. Also N.B.G./D.A., Document: 264, Tsouderos to Diomedes February 26 1925.

13. The N.B.G. was obliged to act in such a manner according to the 1898 Law of Control.

14. B.E./C.B.P. 321 Vol.1, Roussin to Niemeyer, February 20 1925; and Roussin to Chamberlain March 11 1925.

15. Roussin was aware that about 300,000,000 drs. had been paid out to those holders of the Treasury bills who did not want to make a renewal. B.E./C.B.P. 321, Vol.1, Roussin to Niemeyer, February 20 1925. For negative response of Roussin. See: N.B.G./H.A.,XXXIII Miscellaneous, File 63, British war debt: Diomedes to Tsouderos, February 18,21 1925.

16. Roussin spoke with the Prime Minister. In a letter to Chamberlain, Roussin noted that the Prime Minister "welcomed in particular the idea of an increase in the Banks capital and asked me [i.e. Roussin] to put it in a more concrete form for him". But, other than this piece of information we do not know whether this proposition was discussed given any serious consideration within the Greek official circles. Source: B.E./C.B.P./321. Vol.1, Roussin to Chamberlain, March 2, 11, 1925.

17. For the arguments put forward by the officials of the N.B.G. as to why they considered the emission to be absolutely necessary and for their 'structuralist' interpretation for the origins of the trade deficit. See: B.G./T.A., Documents: 102/8 Promemoria prepared by Tsouderos on February 25 1925, and 102/11 Diomedes to Norman March 3 1925).

18. N.B.G./H.A., XXXIII Miscellaneous, File 63, British war debt: Tsouderos to Diomedes, February 25, March 12, 1925; also same file Diomedes to Tsouderos, March 7, 1925. Also, B.G./T.A., Document: 102/11 Diomedes to Norman, March 3 1925. Norman also wrote that "am also convinced [exchange] position can only be permanently improved in agreement with International Financial Commission, a fact which, perhaps, is not fully recognized by Government or Diomede. Source: B.E./C.B.P.321 Vol.1: message from Norman to Howland - Refugee Commission Athens (despatched in F.O. 27.2.25) titled: 'Confidential'.

19. This threat was taken seriously. Roussin stated that he was afraid "...lest they [i.e. the Greeks] take the law into their own hands and issue notes without our consent, as they have done before". Source: B.E./C.B.P. 321, Vol. 1: Roussin to Chamberlain, March 11 1925.

20. FO371/10765/C4728 Greek Law of Control, February 26 (March 10), 1898. Also, N.B.G./H.A., XXXIII Miscellaneous, File 63, British war debt: Diomedes to Tsouderos, March 7 1925.

21. Diomedes asked that the balance of the second tranche of the First Refugee Loan of 1924 be transferred from the Bank of England in order temporarily to reinforce the exchange reserves of the N.B.G. For the declared purpose of this transfer. See: B.M./V.A., File 190, Tsouderos to Diomedes,February 3 1925. The exact date of the transfer is not known but it is certain that it took place before the emission. For Howland's disapproval of the fact that the funds of the R.S.C. 'backed' the new durrency issue, see: B.E./C.B.P. 321, Vol.1, Howland to Norman, November 3 1925.

22. The latter held that "since inflation followed necessarily from an unbalanced Budget, with the balancing of the budget inflation necessarily ceases". For this quotation and Diomedes stance, see: *The Times*, September 18, 1925). A notable representative of the academic community Kallitsounakis wrote in early 1926: ... "after the balancing of the budget, the settlement of the floating debt, it is possible that the drachma would on its own -automatically- stabilize, and maybe therefrom show a tendency to gradually revaluate". *Αρχείον Οικονομικών και Κοινωνικών Επιστημών*, Vol. 6 (1926), issue A, January-March 1926.

23. For the fact that the juxtaposition between the I.F.C. (Roussin) and the N.B.G. (Diomedes) was also of an ideological nature also see M.Psalidopoulos, *op.cit.*, p.325.

24. N.B.G./H.A., XXXIII Miscellaneous, File 63, British war debt: Diomedes to Tsouderos, March 7 1925.

25. B.E./C.B.P. 321 Vol. 1, March 11, Roussin to Chamberlain.

26. B.E./C.B.P. 321, Vol. 1, Roussin to Sir Henry Strackosch, undated (but in the letter Roussin states that he has been in Athens for one month, so it must have been written in early 1925.

27. B.E./C.B.P. 321, Vol. 1, Roussin to Niemeyer, February 20 1925; Roussin to Chamberlain, March 11 1925; and also above letter Roussin to Strachovich.

28. B.G./T.A., Document: 127/17 "La Stabilization de la Drachme", by L.G. Roussin, July 18 1925.

29. Roussin went so far as to claim that Tantalides the undersecretary of finance "actually hinted at the possibility of arriving at a stabilization of the currency under the control of the International Financial Commission." Was this statement accurate or was Roussin putting words in the mouth of Tantalides in order to make the idea that the I.F.C. control stabilization appear more palatable less imperialistic to the F.O.? Source: B.E./C.B.P. 321, Vol. 2, Roussin to Cheetham, December 22 1925.

30. Roussin noted that Greece's total reserve at the moment stood at £6,500,000. This was a little over one third of the total circulation of banknotes. (The composition of the reserve was as follows: i) £2,000,000 was in a metallic form, ii) gold bonds of the Greek government that had a market value of £1,000,000, and iii) £3,500,000 of foreign exchange. It was the larger part of this latter category that was largely immobilized. Source: B.G./T.A., Document 127/17: 'La Stabilization de la Drachme', by Roussin, July 18 1925.

31. *The Times,* September 21 1925.

32. *The Times*, September 18, 19, and 21. These articles also noted that the widening trade gap had played a negative role. But here also there was a difference of opinion with the Greek authorities: whereas Diomedes attributed the trade gap to the growing imports of machinery, *The Times* attributed it to conspicuous consumption.

33. For the fact that it was believed that the articles were instigated by Roussin, see: N.B.G./H.A., XXXIII Miscellaneous, File 64, Greek Economics: Diomedes to Protedicos, September 19 1925. Also: B.E./C.B.P. 321, Vol. 3, "Interview between the Governor and M. Roussin", June 2 1925.

34. B.E./C.B.P., 321 Vol. 2, Roussin to Cheetham, December 22 1925.

35. *Ελεύθερον Βήμα*, September 23, 24, 26, 1925. Drossopoulos tried to redress the damage done by *The Times* to Greece's image in the City by arranging the printing of an article, which criticized the hard stance adopted towards the N.B.G., in the *Financial News* on October 23 1925.

36. For a detailed description of *The Times* incident, see: Psalidopoulos, *op.cit.*, pp.320-325.

37. Sir Eric wrote to Diomedes that the circumstances leading to the depreciation of the drachma "...were not totally under your control...". Source: N.B.G./H.A., XXII Banks, N.B.G. and Foreign Banks, File 70, Correspondence with Hambros Bank: Hambro to Diomedes, October 21 1925.

38. For Freme's occupation see: M.F.A./H.A., A/14, Economic Matters of Greece, Kaklamanos to Minister of Finance, October 20 1931. For his support of the Greek case, see: *The Times*, October 26 1925.

39. N.B.G/H.A., Various documents, File 64, Drossopoulos to Diomedes, October 10 1925. Also for the friendly stance adopted by Hambros and its efforts to ensure the publication of Diomedes reply see: N.B.G./D.A., Document 272, Drossopoulos to Diomedes, October 23 1925. The reply of Diomedes was published in the edition of October 22 1925.

40. N.B.G./H.A., XXXIII Miscellaneous, File 64, Greek Economics: Drossopoulos to Diomedes, October 21 1925.

41. This legislation had been passed in August, but it had not been applied before October. Source: Tsalikis, *op.cit.*, pp.43-44.

42. For a general description on economic activity and public finances during 1926 see: FO371/12178/3697/19, Annual Report 1926. For the fact that this measure brought a mini-recession in economic activity see Psalidopoulos, *op.cit.*, p. 83. Also *The Economist*, October 9 1926.

43. Veremis, (1982), *op.cit.*, pp.60-61.

- National defence -

44. The Treasury bills in circulation had been endorsed by the N.B.G. and were discountable by it. The government also specified that payments for the bills that matured before March 31 1927 would be made half in drachmae and half in bonds of the 1926 forced loan. For details of the forced loan and the other measures enforced with it see: Legal decree of January 23 1926. As for the National defense bills, these were either 3 or 6 or 12 month (drachma) bills and their rates of interest were 4%, 4.5%, 5%, respectively. Source: Bank of Greece, *op.cit.*, p.33.

45. With the forced loan the exchange value of the drachma improved but only temporarily. On December 31 1925 the pound was 375 drs., and at the end of January it was 343 drs.. However, by April the drachma was falling again.

46. At the time the cover of the National Bank consisted of £1,900,000 in gold, and of Greek government gold securities and foreign balances with an estimated market value of £2,000,000. The total amount of circulation on March 15 stood at £16,400,000. Source: G.L.H.A./D.A., File: Negotiations in London of Venizelos and Tsouderos, 1926, document titled: "Projet de Stabilization de la Drachme".

47. B.G./T.A., Document 127/17 "La Stabilization de la Drachme (II)" by L.G. Roussin, March 15, 1926. That Roussin wanted the credit to amount to £2,000,000 is mentioned in: M.F.A./H.A., File: 1927/A/6/A, Supplementary Refugee Loan: Dendramis to Argyropoulos, February 4 1927.

48. Roussin proposed to the Bank of England that the unissued portion of the five percent 1914 loan be pledged as security. The nominal amount of the five percent 1914 loan was 500,000,000 francs or £19,850,000. The unissued portion was 164,926,000 francs or £6,547,000. Source: B.E./C.B.P. 321, Vol. 2, Roussin to Niemeyer, March 3 1926.

49. N.B.G./D.A., Document 352(b), titled: "Comments on the plan" by Diomedes, June 8 1926.

50. Diomedes wanted a £5,000,000 credit for 3 years. Apparently, Roussin eventually came to agree that though £2,000,000 would be adequate technically, £5,000,000 would be necessary for psychological reasons. But, this was much later. Source: N.B.G./H.A./D.A., Document 352(a), titled: "Comments on the London plan for the stabilization of the drachma" written by Drossopoulos on June 8 1926.

51. B.E./C.B.P. 321, Vol. 3, "Interview between the Governor and M.Roussin", June 2, 1926.

52. G.H.L.A./D.A., document titled: "Comments on the plan for stabilization handed to The Bank of England" written in 1926.

53. B.E./C.B.P. 321, Vol. 3, document titled: "Interview between the governor and M. Roussin", June 2 1926.

54. N.B.G./D.A., Document 346, Tsouderos to Diomedes, June 29 1926.

55. In January 1926 Diomedes had suggested privately to Tsouderos and Kaklamanos that Greece should propose to Britain that the balance of the book credits be deposited with the Bank of England in a special account to be used for the increase of Greece's foreign exchange reserve. In March 1926 Venizelos also flirted with the idea that if it became possible to bring back capital that had fled the country, and to increase the flow of remittances it would be possible for Greece to join successfully the gold standard and for the drachma to revaluate. Sources: for Diomedes suggestion see: N.B.G./H.A., XXXIII Miscellaneous, File 63, British war debt: Kaklamanos to Pangalos, February 2 1926. Also, B.G./T.A., Document 98/2, Tsouderos to Kaklamanos, February 13 1926. Also, N.B.G./D.A., Document 317, Kaklamanos to Diomedes, January 21 1926. For Venizelos aspirations see: B.M./V.A., Document 273: A note prepared by Venizelos (in March ?) 1926.

56. The idea that the book credits be used for stabilization was first put forward by Diomedes. See sources quoted in reference 55 above.

57. Venizelos to no avail suggested that if the Treasury did not want to give the remaining book credits directly to the Greek government, it could alternatively, allow the government to raise a 5% loan of £5,000,000 at a high price of issue. For this proposal see: B.G./T.A., Document 98/89: Tsouderos to Ministry of Finance and Ministry of Foreign Affairs, July 5 1926.

58. Diomedes proposal regarding the raising of the cover from 35% to 70% of the circulation was considered even in Greece as being superfluous.Drossopoulos maintained that a level of 50% would be more than adequate. B.G./T.A., Document 38/46: Drossopoulos to Diomedes, March 6 1927.

59. For the reaction of the Bank of England to Diomedes' proposal to pursue pegging see: B.G./T.A., Document 38/31: Diomedes to Drossopoulos, February 28 1927.

60. The quotation is from B.M./V.A., File 328: Diomedes to Venizelos, February 16 1927.

61. B.M./V.A., File 328: Diomedes to Venizelos, February 16 1927. I have made on my own a free translation of the text.

62. B.M./V.A., File 328, Diomedes to Venizelos, March 7 1927. B.G./T.A, Document 38/56, Diomedes, Kaklamanos, and Mantzavinos to Ministry of foreign Affairs, March 17 1927.

63. For the more compliant attitude towards the R.S.C. see: B.E./C.B.P. 326, Vol. 6: Campbell to Salter October 6 1926. For the promise to comply with the 1924 Geneva Supplementary Refugee Loan see: B.G./T.A., Document 38/72: Kaklamanos to the Ministry of Foreign Affairs, March 27, 1927.

64. M.F.A./H.A., File: 1927/A/6/A, Supplementary Refugee Loan: Dendramis to Ministry of Foreign Affairs, January 26 1927.

65. M.F.A./H.A., File:1927/A/6/A, Supplementary Refugee Loan: Dendramis to Ministry of foreign Affairs, March 7 1926.

66. For the Academic and business community's reaction to monetary instability see: Psalidopoulos, *op.cit.*, pp 337-338, 348; also *'Αρχείον Οικονομικών και Κοινωνικών Επιστημών'*, Vol. 6 (1926), Issue A, January-March 1926 pp. 76-80; P. Dertilis, La Reconstruction Financiere de la Societe des Nations, (Paris, 1929); p. 106. For the National Banks reaction see: A.Diomedes, *op.cit.*, p. 126.

67. For the profiteering of the commercial banks see: K.Kostis, Οι Τράπεζες και η Κρίση 1929-1932, (The Banks and the Crisis 1929-1932), (Athens, 1986), pp. 52-53. For the heavy speculation in foreign exchange which characterised the early twenties see: *The Economist*, September 8 1923, p.369.

68. B.G./T.A., Document 102/11: Diomedes to Norman, March 3, 1925.

69. Psalidopoulos, *op.cit.*, p. 338.

70. B.M./V.A., File 190: Tsouderos to Diomedes, February 3, 1925; and also B.G./T.A., Document 98/72: "Memorandum on the fiancial situation and the commercial balance of Greece", June 14, 1926.

71. For a description of the arguments put forward by those who were in favour of revaluation see: Psalidopoulos, *op.cit.*, pp.336-349; Among those in favour of revaluation was Venizelos who toyed with the idea of joining the gold standard through: i) the return to the homeland of capital which had fled, ii) increasing the amount of emigrant remittances from the U.S.A; and iii) gradually withdrawing money from circulation so that the drachma would revaluate and the foreign debt therefore become less of a burden. He suggested that the drachma be stabilized at a rate of 375 to the pound sterling and that every year its rate fall by 12 drs. so that at the end of a decade it would be equivalent with 252 drs. to the pound sterling. Sources: D. Agrafiotis, Γεώργιος Καφαντάρης (George Kafandaris), (Athens, 1983), p.197. Also, B.M./V.A., File 273, notes on Venizelos stabilization plan no date but it is more or less certain that they were made during 1926; also same File Venizelos to Argyropoulos, December 21 1926; also same archive file 274 Venizelos to Kafandaris, April 7 1927. Also, *Αρχείον Οικονομικών και Κοινωνικών Επιστημών. ibid.*

72. *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος*, issue 3, 1926-1927, pp. 499-503, 631-647, 739-740.

73. For example Kofinas was in favour of free convertibility whereas Diomedes was not. See: G.Kofinas, Εκθεσις Προϋπολογισμού χρήσεως 1923-24, (Report on the Budget of 1923-1924), (Athens, 1923) and "Η Νομισματική Πολιτική του 1923 και 1924" (Monetary Policy during 1923 and 1924), *Πλούτος*, February 11 1925.

74. For example the populist Tsaldaris and the Venizelist Diomedes agreed that legal stabilization was not the path that should be followed. See: *Εθνικός Κήρυκας*, *op.cit.*, Vol. 9, Session of August 22 1927, p. 15. In conclusion, let us note that the only detailed account which exists of the various views which developed regarding stabilization in Greece is : Psalidopoulos, *op.cit. passim*. More work is needed in this area in order to be able to determine whether it is possible to establish 'schools' of thought.

PHASE TWO
THE LEAGUE OF NATIONS DEVISES A COMPREHENSIVE STABILIZATION PLAN (1927-1928)

Chapter 1

The Stabilization Plan is Born

1.1. The Government Decides to Raise a League Loan

This chapter will consider in detail how the comprehensive League stabilization plan was devised and the reforms it entailed. It will extend themes explored in the previous section: namely Greek opposition to 'Anglo-Saxon' currency premises. The major issues of dispute throughout were the question of foreign control and the nature of the banking reform to be carried out. Infact, few sectors of Greek opinion were happy with these two aspects of the League scheme. They were accepted out of necessity. This was one of the fundamental reasons why the implementation of the stabilization plan was wraught with difficulties from its inception. The key figures in the negotiations on the part of the League of Nations were once again British: Sir Arthur Salter, and Sir Otto Niemeyer. And as had been the case with the First Refugee Loan, Norman was omnipresent. Notably, the League kept the I.F.C. out of this process, although as explained in the text it had laid the ground work during 1925 and 1926.

As seen above, in early 1927 Diomedes had reacted negatively to Norman's proposal for formal stabilization and a comprehensive refugee-cum-stabilization loan to be raised under the auspices of the League. Yet, in late March 1927, these reservations were dropped given the realization that Britain would never grant the book credits and the only option facing Greece was to play along with the wishes of the League of Nations. In Diomedes' words:

> "Most countries follow this path now [i.e. legal stabilization] and even France which was all for pegging is now entering the path of orthodoxy" and " that as things stand today we can do nothing without the assistance of the League, and that through her we can achieve a lot. Our pride will not be insulted if with the intervention of the League we achieve our goal... Also the revival of the dogma of self containment is piteous for our independence is not threatened and our dependence on others is an unquestionable fact".[1]

Politicians were more resilient than bankers, not because they had strong views in favour of pegging, but because they feared the political cost that would result from the extension of the League's authority over Greek public finances. Up to the signing of the war debt with Britain on

April 6 1927, George Kafandaris -the minister of finance and key figure in terms of economic policy making during the period of coalition government- maintained that a League plan would be disadvantageous for the country. Apparently, he hoped the British Treasury would give in and provide the remaining book credits for stabilization.[2]

With the signing of the British war debt agreement in April 1927, Kafandaris was obliged to face the fact that the Paris Agreement of 1918 had become a dead letter. Churchill wrote to the Greek minister of Foreign Affairs the day after the agreement was signed:

> "I wish to assure you that His Majesty's Government would view with the utmost sympathy any well considered plan of financial reconstruction framed on adequate lines, and will gladly give such a plan the fullest support that may be in their power. His Majesty's Government are the more ready to give this support in view of and in return for, the waiver by the Greek Government, as part of the debt funding agreement of their claim to the balance of the credits arising from the agreement of 10th February 1918."[3]

A few weeks later the League Secretariat was invited to undertake a detailed examination of the financial situation of Greece.[4] By a twist of irony, the mission sent to Greece in May 1927 was headed by Avenol. Its other members were E. Felkin, J.Rueff, and J. Von Walre de Bordes, all of whom belonged to the Financial Committee. These League experts with the help of the Greek government "carried out an investigation as tactfully and unobtrusively as possible, in view of the sensitive state of public opinion on the question of foreign interference and control".[5] At the end of May the mission submitted to the Secretariat a lengthy report on the accounts of the state Treasury, the Budget, the National Bank of Greece and the general economic situation of the country.[6]

1.2. The Study of the League and the Report of the Greek Committee of Experts: The Juxtaposition of Two Different 'Worlds'

The League of Nations mission in its study reached the conclusion -possibly as a result of Bank of England pressure- that a solitary Refugee Loan was not advisable and that a comprehensive treatment of the whole financial situation, budgetary and monetary would be necessary. In particular, it proposed that the National Bank of Greece would have to be divested of its 'mixed banking' character and reformed so as to conform to the structure and functions of a modern central bank.[7] In addition, it advised that the existing system of accounts be scrapped and the budget unified. At the heart of this suggested budgetary reform lay the principle that the annual budget would have to incorporate all of the accounts of the state during the running year.

The study reached the conclusion that a £9,000,000 loan would be necessary. It proposed that £3,000,000 would go to the N.B.G. in order to increase liquidity and foreign exchange holdings and thereby making it possible for Greece to join the gold standard. £3,000,000 would be employed to eradicate more than three quarters of the existing budget arrears.[8] A further £3,000,000 would be used for the completion of the refugee settlement.[9]

The League study was important because it was used as a blueprint for the stabilization programme subsequently implemented. The best way to set into context the significance of its propositions is to juxtapose it with the report prepared by the Greek Committee of Experts in the beginning of 1927. The comparison highlights the different perspective between the Greek administration and intelligentsia versus the country's official supervisors. It brings out the differing philosophies permeating those parties that played a decisive role in the preparation of the two respective reports. Namely, the Bank of England-Niemeyer and the National Bank of Greece.[10]

The coalition government that came into office in December 1926 had set as one of its main goals the restoration of state finances. The presumption being that stabilization would be the 'golden key' that would open the door to a new era of massive flows of foreign capital and emigrant remittances. Among the first tasks of the coalition was the establishment of a Committee of Experts to propose corrective measures in the realm of fiscal and monetary policy. But, though the intentions of the government were presumably 'radical', the resulting report failed to envisage structural modernization. It was nationalistic and conservative in tone. Its analysis was based on the assumption that Greece's problems stemmed from historical and not structural factors. The report did not blame the Greek government, or the National Bank of Greece for the unbalanced state of the budget and the monetary chaos, but instead the long war effort and the inadequate assistance received by the ex-Allies. This was an argument which had been put forward repeatedly by Diomedes.[11] Regarding fiscal affairs it proposed the unification of the budget.[12] But, like its predecessor -the 'Economies Committee' that had been set up in early 1924- its basic recommendation was that the fiscal problem would have to be tackled from the side of expenditures rather than revenue- given that the percapita tax burden in Greece was in real terms among the highest in Europe.[13] Indicative of the growing conviction that Greece would have to put aside irredentism for good was the fact that the report stated that the burden of the cuts (i.e. about 70%) would have to be basically carried by the two defense ministries.[14]

The attitude of the report towards monetary affairs was totally complacent. Indeed, with an amazing ease it brushed away the topic by maintaining that "the mechanism of stabilization is a matter of technicality". Correctly, in our opinion, the bibliography has observed that the committee of experts "did not envisage in its report any need to reform the N.B.G." and that "The necessity of a banking reform was posed by the representatives of the League of Nations".[15] The narrow scope of the report becomes all the more apparent considering that the study prepared in France in 1926 by a similar committee of experts laid out a complete stabilization programme.[16] Last, in order to set the Greek report in context it should be noted that it aptly reflected the incongruity of the country's leadership towards the 'foreign factor'. On the one hand, the experts made the daring proposition that the foreign debt under the supervision of the I.F.C. should be repaid in drachmae and not foreign currency earnings. On the other, they urged the Greek government to reach as soon as possible a final settlement of the war debt in order that foreign capital flow once again into Greece, the presumption being that foreign finance was a sine qua non for the development of the country.

To sum up. The common point between the League Report and that of the Greek experts was that they both suggested the unification of the budget. The basic difference was that the foreign report proposed a sweeping reform of the National Bank. The antithesis between the National Bank of Greece and the country's foreign supervisors had by now run its full course. The repeated complaints expressed by the Bank of England, the British Treasury, the I.F.C., and the League had grown into a radical reform proposition. It is easy to discern that the banking reform and the stabilization plan were exogenously " imposed". As stated above, it is apparent that the Greeks if they had been left on their own would have left the N.B.G. intact and would have followed a policy of pegging and defacto stabilization.

1.3. The Terms Posed by the League of Nations

During the proceedings of the 27th session of the Financial Committee held between the 8th and the 14th of June 1927, the question of a Greek stabilization plan was discussed in detail. The delegation which arrived in Geneva in order to present the Greek case was comprised of Kafandaris (minister of finance) and Michalakopoulos (minister of foreign affairs). In their appearance before the Committee, these two liberal politicians described the positive steps taken with regard to economic policy. A significant development was the curtailment of military expenditure. In addition, as it had not been possible to carry out in full expenditure cuts recommended by the Committee of Experts, new measures for increased taxation had been introduced by Kafandaris.[17] By no coincidence the day before leaving for Geneva, the latter presented the 1927- 1928 budget to the National Assembly and pleaded that his tax proposals be voted at once. His request was granted and once in Geneva, the Greek minister set out to convince League officials that the coalition was determined to attain its goal of securing a budget surplus for the fiscal year 1927-1928.[18]

The Financial Committee was pleased with the improvement. Indeed, during the last six months the drachma had 'stabilized' at a rate of 370/375 drs. to the pound sterling. However, the F.C. recommended to the Council of the League a £9,000,000 stabilization loan, only after it ascertained from the Greek delegation that the government was prepared to reduce the volume of the state debt towards the N.B.G. and centralize in the bank all the monetary operations of the state and its enterprises. Athens also had to agree that the N.B.G. would be independent from state control, would limit future advances to the state, would grant only short term loans, would divest itself from other commercial activities i.e. restrict its business to central banking and would unify its note issues and constitute sufficient cover to allow Greece to join the gold standard on a permanent basis.[19] The Greek delegates accepted these terms and as a result they were publicized by the League in the official report of the June session.[20]

However, archival material shows that the Financial Committee, prior to reaching its decision to recommend a new Greek loan, also asked Kafandaris to agree in private that the Greek government would maintain the 1927, 1928, 1929 budgets at a level of 9,000,000,000 drs., report in detail to the F.C every three months on the progress of those budgets, would agree that the proceeds of the loan to be allocated to the refugees would be handled by the R.S.C., accept that the revenues for the new loan would be administered by the I.F.C., consent to establish a legal stabilization at the rate that 'had ruled' in the last six months and would appoint a foreign financial expert to the N.B.G.[21] The Greek minister of finance accepted all of these 'terms' on condition that the foreign advisor would not have a power of veto -as was the original desire of the Financial Committee- but would serve in a consultative capacity.[22] On the last day of the proceedings, Kafandaris, with the blessings of the Financial Committee, made an official request from the Secretary General that the League raise under its auspices a comprehensive £9,000,000 loan. The Council met three days later (i.e. on June 17) and it agreed to approve a comprehensive stabilization plan during its September session. In the interval: the Secretariat was to prepare a loan supplementary refugee loans and the Financial Committee would draw up a convention which would determine the manner in which the National Bank of Greece would be restructured.

It would be an oversight to close this section without reference to political factors. Throughout 1926 the Financial Committee had not stopped advocating that in order to recommend to the Council a supplementary loan, political stabilization would be required. This presupposed that the military would no longer be allowed to intervene in politics and the country would acquire a definitive constitution, regardless of whether it would be Republican or Monarchist.[23] Indeed, the Financial Committee was true to its word. The decision to recommend a Greek loan in June 1927 was not unrelated to the fact that on June 3, the National Assembly of Greece finally voted a new constitution.[24]

1.3.1. The banking reform and the statutes of the new central bank

The subcommittee set up in mid June 1927 to delineate the specific reforms to be implemented in the banking system was composed of Sir Henry Strakosch, M.Jansen, M.Dubois, Osborne, and De Bordes. However, it was Tsouderos and not they who came up with the idea of creating a modern central bank. During the first meetings between the subcommittee and Tsouderos, who had stayed on in Geneva in order to 'assist' the deliberations a serious stumbling block emerged. The latter wanted to turn the N.B.G. into a pure central bank and strip it completely of its commercial activities. But, Diomedes, who was giving orders to Tsouderos from Athens, insisted that the National Bank should not be completely divested of its commercial character and that it should be allowed to maintain the right to accept deposits.[25] The subcommittee was equally unyielding and determined in its resolution to transform the N.B.G. into a proper central banking institution. The only concession it was prepared to make was to extend the time limit it had set for the completion of the metamorphosis of the National Bank from two months to two years.

In order to avoid a stalemate in the preparations for the League plan, Tsouderos came up in late June 1927 with what appeared at the time to be an 'ingenious' proposition. It was to remove the central banking functions from the National Bank of Greece and to set up a separate bank of issue. Tsouderos presented this idea to Strackosch, who headed the subcommittee, as well as to Niemeyer, Salter and Cecil Lubbock of the Bank of England. They all accepted it and Strackosch began at once to prepare the statutes for a new central bank, although there was no certainty that Athens would give its approval. Indeed, the situation was peculiar for Tsouderos presented his idea directly to the League officials without having beforehand cleared it with Diomedes or the government. Luckily, he found no difficulty in convincing the governor of the N.B.G. and Kafandaris of the expediency of such a scheme.[26]

The statutes of the new central bank were closely modeled on the Estonian and Indian precedents. The first drafts were prepared during early July 1927 at the Bank of England by Osborne and DeBordes under the direction of Strackosch. Tsouderos participated in a consultative capacity. In the words of Osborne he "suggested only a few alterations but these chiefly in the direction of further strengthening the bank against the Government".[27] DeBordes took copies of the final London draft to Brussels and Basle for approval by Janssen and Dubois. Janssen was almost in complete agreement with the text, but Dubois disliked the idea of a central bank. In fact, with hindsight he was prophetic in that "He feared that the new bank would not have sufficient standing and would not be strong enough to control the financial market". The two most important modifications made as a result of Dubois' reservations were that the stipulation permitting the government to revoke the note issue privilege from the bank if the statutes were violated was withdrawn and the clause forcing the commercial banks to deposit a 7% reserve with the central bank was also excised. The latter clause had been suggested by Sir Henry and although Tsouderos may have thought that it was an excellent idea, the Greek commercial banks reacted strongly against the proposition.[28] The suggested titles for the new bank during the preparation of the London drafts had been The Reserve Bank of Greece, Central Bank of Greece, and Bank of Greece. The third title was the one finally chosen- it was simple as well as impressive.[29]

At the end of July Tsouderos returned to Athens with the final drafts in hand for the charter of the new bank and the convention between the National Bank and the government. (The main object of this convention was to determine the recompensation due to the N.B.G. because it was stripped of its issue privilege 'prematurely'). The two drafts set off a political crisis. The Populists, under the instigation of their financial advisor Maximos, departed from the coalition in late August 1927 under the pretext that the issuing privilege should not be taken away from the N.B.G. What was at stake however was more. This party in December 1926 had agreed to join the coalition in order that Greece "make a good impression abroad" and thus secure the necessary funds for stabilization.[30] However, the Populists proved incapable of shedding their resentment towards the twin phenomenon of growing state control and the enhanced presence of the League in Greek public affairs. The League was viewed with suspicion because it was under 'British' tutelage. Notably, the Populists did not hold Britain and the other ex-Allies in esteem because of their role in the dethronement of King Constantine in November 1920.[31]

Finally, the statutes of the Bank of Greece, the convention with the N.B.G., and the loan Protocol were signed by the Government on September 15 1927.[32] One week later they were approved by the General Assembly of the League of Nations. This League Protocol -which became known as the Geneva Protocol of September 1927- contained in full the conditions under which the League agreed to grant its approval for the flotation of a loan "yielding an effective sum equivalent to not more than nine millions sterling". The Greek government undertook that the proceeds of the loan would be applied only for stabilization, the budget, and the refugees. Furthermore, the Geneva Protocol stipulated that the government would have to set up a central bank and "a new system of public accounting in conformity with the unity of the State Budget". All of the receipts and payments of the State and public enterprises would have to be centralized at this new bank.[33]

Apart from the fact that the appointment of a foreign advisor at the Bank of Greece was not mentioned, the Geneva Protocol described in full the mode of supervision that was to be established. It gave formal status to those terms the Greek delegation had been 'cajoled' into accepting during the June session of the Financial Committee.[34] In addition, it posed one more term that had not been mentioned during the June session. The Greek government undertook not to seek short term advances or issue Treasury bills or other short term similar obligations in excess of 800,000,000 drs. This was equal to approximately 9% of the plafond set by the Financial Committee for government expenditure. The time length of this restriction was not specified although it was insinuated that it would hold for as long as the Financial Committee thought necessary.[35]

To recapitulate. The scheme devised by September 1927 rested on three cornerstones. First, the establishment of tight League supervision over Greek fiscal and monetary policy so as to ensure that the authorities would conform to orthodox British economic thinking. Second, the setting up of a modern central bank. Third, the creation of a new system of public accounting. The third segment of the scheme was the least criticized. Nevertheless, it was implemented with difficulty due to the administration's incapacity to effect the required changes at a satisfactory pace. Regarding the first two provisions it is noteworthy that institutional factors played a prominent role in the demise of free convertibility. (This issue is addressed below in Book I, Section III, Phase Three.)

References

1. B.G./T.A., Document 38/71: Diomedes to a colleague (most probably Tsouderos or Drossopoulos), March 27 1927.

2. For the objections of Kafandaris see: B.M./V.A., File 49, Kafandaris to Venizelos, March 30 1927. At this point, Venizelos urged Kafandaris to go ahead with the proposals of the British regarding stabilization. See: B.G./T.A., Document 38/83, Venizelos to Kafandaris, April 3 1927.

3. B.E./C.B.P. 327, Vol.2, Churchill to Michalakopoulos, April 71927.

4. Salter two days after Norman had proposed to the Greeks that the Bank of England carry a report on locus suggested that the best solution would be for the Greek ministry of Finance to invite a member of the Financial Committee to visit and study the situation in Greece. M.F.A./H.A., 1927 A/6/A/ Supplementary Refugee Loan, Dendramis to Ministry of Foreign Affairs, February 18 1927.

5. FO371/12924 C780, Annual Report for 1927, April 1927.

6. B.G./T.A., Vol. 1, Financial Committee, Notes 1,2,3,4; June 6 1927.

7. For the Bank of England expectations as to what conclusions were to be reached if a detailed study of Greek affairs was made see: B.E./C.B.P. 321, Vol. 3, February 11 1927, "Note of a conversation with Monsieur Diomede, Governor of the National bank of Greece, 11th February 1927".

8. The breakdown of the budget arrears had as follows: accumulated arrears up to the fiscal year 1924-1925 : 400,000,000 drs.; budget deficit of 1925-1926: 300,000,000 drs.; budget deficit for the year 1926-1927: 700,000,000 drs. Thus, by the beginning of 1927 the total amount of arrears was 1,400,000,000 drs. which was equivalent to approximately £4,000,000. This figure is based on the following source: C.B.P. 321, V. 3, "Note of a Conversation with Monsieur Diomede and Monsieur Mantzavinos on 17th March 1927" signed H.A.S.

9. It was recognized that ideally £5,000,000 would be necessary for the completion of the refugee scheme. As things turned out the R.S.C. was forced to drop certain of its scheduled activities and wind up earlier than planned.

10. Notably three of the members sitting on the Greek committee were from the National Bank of Greece. N.B.G./H.A., X Loans, A' Public Loans, File 180, Public Finance: Report prepared by the Committee of Experts, February 1927. See also account on the report in the: *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος 1926-1927*, February 1927. Also Psalidopoulos, *op.cit.* 316-319.

11. Diomedes, (1922), *op.cit. passim.*

12. This principle had been written in the law but it had been ignored especially after WWI largely as a result of the growth in the number and size of the various Caisses. Source: Dertilis, *op.cit.*, p.113.

13. For example, in 1929, in Greece the percapita tax burden was equivalent to 28% of the percapita income, whereas in Britain the percapita tax burden was equivalent to only 19% of the percapita income. Source: Economic Yearbook of Greece for 1929, pp.260-268. Regarding, the committee its only proposition with regard to taxation was that it be more equally distributed. There was not much room for increasing taxation for the public was still angry at Pangalos for having reimposed the tithe. See for details. D. Tantalides, Τα Δημόσια Οικονομικά επι Δικτατορίας Παγκάλου (The Public Finances of the Pangalos Dictatorship), (Athens, 1928) p.25. Also, *Νέα Ημέρα*, April 19 1926.

14. The total amount of expenditures for 1926 was about 8,700,000,000. At 900,000,000, the proposed cuts amounted to about 15% of the total expenditures--versus the 20% cuts proposed in 1924 by the committee of economizing that had then been set up.

15. Dertilis, *op.cit.*, p.163.

16. Dertilis, *op.cit.*, p.111.

17. According to the estimations of Dertilis, the government actually carried out only 1% of the proposed economies! *ibid.*

18. For a more analytical presentation of the tax and other measures that Kafandaris introduced in order to balance the budget see: Agrafiotis, *op.cit.*, pp.185-6. Also, *G.P.D.*, First Assembly, Second Period, Vol. B, Minutes of Session 59, April 11 1927, and Minutes of Session 86, June 1 1927, pp. 245-264, 777-818.

19. E. Venezis, Εμμανουήλ Τσουδερός - ο Πρωθυπουργός της Μάχης της Κρήτης (Emmanuel Tsouderos, The Prime Minister of the Battle of Crete), (Athens, 1966), p. 48.

20. League of Nations, C.336.M110 1927.11, Rapport au Conseil sur les travaux de la 27ieme session du comite tenue a Geneve du 8 au 14 Juin 1927.

21. B.G./T.A, Vol. 1, document titled: 'Notes', June 1927.(Comments written by Tsouderos on the document: Questions posed to Kafandaris, by Sir Otto Niemeyer in the session of the Financial Committee of June 12 1927, and the answers to these questions. This note is the final agreement between Kafandaris and the F.C. before the latter reached its decision in June 1927 to recommend to the Council of the League of Nations a Greek loan).

22. Venezis, *ibid.* Also the question of the role of the supervisor was not settled completely until early January 1928. The problem was that the Financial Committee wanted the advisor to have a "right to obtain all information". Finally the Greeks gave in and allowed him to have access to 'all of the facilities' of the Bank of Greece. See L.N.A., Sir Arthur Salter, Box 18, ref. S122, Greek loan: Felkin to Salter, January 10 1928.

23. *The Economist*, December 18 1926.

24. History of the Greek Nation, Vol. IE, pp. 306-307. Also, A.Svolos, Το Νέον Σύνταγμα και αι Βάσεις του Πολιτεύματος (The New Constitution and the Foundation of Government), (Athens, 1928). Also, Markezinis, *op.cit.*, pp. 152-155.

25. The subcommittee told the N.B.G. that it would have to transfer to the existing commercial banks or to a new commercial bank that might be created for this purpose: i) all the deposits held at the N.B.G. on which interest was paid, and ii) all its mortgage loans, loans to farmers or public interest companies. That is the subcommittee insisted that the N.B.G. would have to keep from its commercial activities only the right to grant discounts and secured advances of only three month duration.

26. Venezis, *op.cit.*, p. 51. Also, see: G.Pyrsos, Συμβολή εις την Ιστορίαν της Τραπέζης της Ελλάδος, (A Contribution to the History of the Bank of Greece), Vol. A, (Athens, 1966)

27. Moreover, due to pressure from his colleagues in Athens he asked the subcommittee to allow the central bank to grant advances of a six month duration- whereas initially it had been stated that the secured advances could not be longer than three months. C.B.P. 321, Vol. 3, Osborne to Niemeyer, July 12 1927.

28. For a detailed description of the proposed modifications made by Dubois see: B.E./C.B.P. 321, Vol. 3, Debordes to Strackosch, July 14 1927. Also G.L.H.A./D.A., or B.G./T.A. Document 115/12: De Bordes to Tsouderos, July 26 1927. For certain propositions made by Osborne but which did not pass also see: B.E./ C.B.P. 321, Vol. 3, Osborne to De Bordes, July 14, 1927.

29. B.G./T.A., Vol. 1, London (1st Draft), "Statutes of the Reserve Bank of Greece".

30. G.L.H.A./The Liberal Club Archive, File 49: undated note prepared by G.Mercouris on the participation of the populist party in the coalition.

31. *Εθνικός Κήρυκας*, *op.cit.*, Vol. 9, Sessions of August 22, 24, 25. pp. 9-42.

32. During August 1927 the Secretariat made five drafts of the loan Supplementary refugee loans. Annex i was the draft declaration to be signed on behalf of the three members sitting on the I.F.C; annex ii described the revenues of the I.F.C.; annex iii contained the draft agreement between the government and the National bank of Greece; and annex iv consisted of the draft statutes of the Bank of Greece. For the legal decrees issued for the ratification of the Geneva Supplementary refugee loans of September 1927 and its four annexes see: *G.G.* First issue, Folio 298, December 7 1927.

33. See Articles I and V of the Geneva Supplementary refugee loans of September 1927.

34. The only difference was that in June it was still assumed that the N.B.G. was going to transform itself into a modern issue bank.

35. See Article VIII of the Geneva Protocol of September 1927.

Chapter 2

The Concessions Made

In the previous chapter we presented the reforms and the tight supervision imposed by the League of Nations within the context of the stabilization scheme. This chapter will examine another aspect of policy dependence. It will look at the 'indirect', yet important, 'concessions' the Greek government had to make. These were posed, as preconditions by the governments of those countries that had a power to block the flotation of a stabilization loan. These concessions entailed the settlement of three issues confronting the coalition government. First, the long standing dispute of the state with the I.F.C. Second, certain private economic claims regarding Britain, U.S.A. and France. Third, Greece's war debts.

2.1. The Dispute with the I.F.C. and Private Economic Claims

After WWI a dispute broke out between the state and the I.F.C. regarding two issues. On the one hand, the I.F.C. claimed that due to the depreciation of the drachma after 1918 the foreign exchange value of the annual revenues under its control had suffered and that as a result it had lost potential income. On the other hand, the state asserted that it had been 'cheated' by the I.F.C. owing to the fact that following the post 1914 depreciation of the franc, and in order to improve the annual return of the bonds of the 'old gold' loans, a peculiar method of calculating the surplus values had been devised. (Namely, the Commission converted the drachmae in its hands into paper francs. Then, ignoring the depreciation of the paper franc, it equated the x amount of paper francs with the same amount x in gold francs, demanding payment in gold francs! In this manner the I.F.C. had made a profit of £1,350,000.)

From 1921 onwards, there was deadlock as the state wanted to refer to arbitration only its claim, (i.e. it refused to refer to arbitration the Commission's counterclaim regarding the losses from the depreciation of the drachma). However, in the spring of 1927, the coalition adopted a more conciliatory attitude and referred both issues to arbitration. The arbiters reached their decision in 1928 and from reports that exist, the I.F.C. was not compensated for its post-1918 loss of 'potential income', but the bondholders of the 'old gold' loans retained the greater part of the disputed £1,350,000.[1]

The outstanding private economic claims were: the ratification of the contract for the electricity concession that had been granted to a consortium headed by the British group Power and Traction Co; the expost recompensation of British, French and Italian nationals whose properties in Greece had been expropriated in the early twenties; and the expost exclusion of these nationals from the forced loan of 1926.

The Hellenic Electricity Co. or 'Power' as it was referred to in short was the largest British concern operating in Greece during the interwar period. This 60 year concession had been granted during the Pangalos dictatorship, and because of its 'scandalous' terms had come under heavy criticism.[2] As the National Assembly had been suspended by Pangalos, the contract had not been ratified. Thus, when the coalition came into power the subject of its ratification became a major political issue. On February 4 1927, a member of the opposition called the government to cancel the 'Power' convention. This request led to a heated debate, and on February 11 the National Assembly finally ratified the contract with the understanding that the government would renegotiate certain of its terms.[3] This latter task was completed by March 22 1927, and was not too difficult to attain because 'Power' was keen to soothe the opposition against it.[4]

Regarding the second issue, the coalition arranged that the nationals of Britain, France and Italy, who owned land in Greece expropriated under the land reform be paid fourteen times the price that had been given to Greek proprietors! This favourable settlement was attained in 1927, after the British government used the I.F.C. "as a channel for exercising coercion". Namely, Britain had threatened that it would not allow the I.F.C. to pay out from the revenues at its disposal the £500,000 recompensation Greece owed to Moslem nationals for the properties they had left behind when they departed from Greece after the Asia Minor debacle. The hands of the state were tied for according to a convention signed with Turkey within the context of the Lausanne Treaty, it was irrevocably specified that this payment could not be made through the Greek Treasury. Thus, to put it simply this convention would have fallen through had Britain refrained from ordering the I.F.C. to release the required credit. France and Italy took advantage of the British precedent and demanded that their landowners be given also equal treatment. Infact,

£400,000 from the proceeds of the Stabilization Loan went directly towards the compensation in gold of these foreign nationals.[5] Finally, the coalition in early 1927 exempted expost British subjects from the forced loan of 1926. (Some £25,000 was involved) Such an arrangement had also been made posteriorly regarding the forced loan of 1922.[6]

In sum, when the coalition in June 1927 applied to the League of Nations for the flotation of a stabilization loan, the pending disputes of the state with the I.F.C. and foreign private economic interests had been settled. That was considered as an absolutely necessary prerequisite by Greece's foreign supervisors.

2.2. The War Debt Settlements

The British debt funding agreement of April 7 1927, was examined separately (in Book I, Section II) because of the significant repercussion the British war debt embargo had on the flow of foreign capital and destabilization during 1925-1926. The American debt funding agreement and the French opposition to the loan will be presented in this chapter because these events became interwined with the last preparatory phase of the stabilization scheme.

2.2.1. The American debt funding agreement - The Second Refugee Loan

The war debt Greece had incurred towards the U.S.A. was small in comparative terms. At a mere $15,000,000 (i.e. approximately £3,000,000) it was equivalent to less than 15% of the war debt owed to Britain. Though the scale of the two debts differed, the government adopted the same approach regarding their repayment. Thus, when the U.S.A., in August 1925, first asked Greece to fund its war debt the reply given was that this obligation would be carried out only under the condition that the American government would agree to grant the remaining $33,000,000 owed under the Paris agreement of 1918.[7] The U.S.A., in antithesis to what was the case with Britain, decided to satisfy Greece's claim to the remaining credits. Thus, in May 1926 an agreement was reached with the Pangalos government whereby the U.S.A. would provide the $33,000,0000 "due". The Greek government, in return, undertook to repay to the U.S.A. this amount plus the existing $15,000,000 war debt (i.e. a total of $48,000,000) "under terms which compared unfavourably with any other debt funding agreement". Namely the redemption period was to be only 15 years and the interest rate charged 4.5%.[8]

Upon coming to power, the coalition government renounced the agreement as one more fiasco of the Pangalos dictatorship, whereupon the U.S.A. declined to renegotiate. Indicatively, when Norman was in New York in early July 1927, he was informed that if Athens did not acknowledge the agreement, Washington would not allow part of the Stabilization Loan to be raised in the U.S.A. and would block the loan altogether. Norman was not pleased with such a prospect. He maintained that it would not "be reasonable, even if it were possible, that London should issue any part of the proposed loan without the cooperation of America."[9] In view of the situation, he contacted Salter and Hambros and asked them to " press the Greeks to reach immediate settlement in Washington". The above incidence highlights the fact that Norman wanted the loan to be an international affair and also that he was keen on seeing the League scheme implemented without delay.[10]

In time, the Greek government became more eager to reach a settlement with the U.S.A. This became particularly obvious in November 1927 in view of French opposition to the loan.[11] Thus, the Greek Ambassador to Washington speeded negotiations with U.S.A. and an agreement was reached on December 6 1927. The total war debt owed to the U.S.A. (including interest) was valued at $19,659,836 and it was agreed that repayment would be made over a period of 62 years along the lines of the British settlement. The Greek government renounced its claim over the remaining credits and the American government in return undertook to "release fresh credits to Greece amounting to £2,5 million [i.e. $12,167,000] on account of the American share of the 1918 credits, but earmarked for refugees in order to make the credits more palatable to Congress".[12] Thus, the objective of the Greek government to attain under 'reasonable' financial terms a combined war debt and credit agreement was attained.

Since these £2,500,000 U.S. funds were to be handed directly to the R.S.C., it was arranged that the Stabilization Loan floated have a net value of only £6,500,000, not £9,000,000 as specified in the Geneva September 1927 Protocol. In order that the intentions of the League of Nations stabilization scheme be carried out as planned, the proceeds of the loan would be divided in the following manner: £3,000,000 would go towards the budget, £3,000,000 would be set aside for the Central Bank, and only £500,000 would be earmarked for the refugees. It is worth noting that the League officials insisted that though the U.S.A. government credits had to be part of the stabilization scheme, under no conditions should it appear openly that the American government was effectively participating in a League loan. These credits -which became known as the 'Second Refugee Loan'- were 'issued' at par, had a 4% interest rate and a 20 year redemption period. Thus, financially, this was the most advantageous foreign loan of the government during the interwar period. Indeed, the only unfortunate aspect of this deal was that Congress delayed giving its approval for the release of the credits.[13] Instead of passing a resolution in March 1928 as was expected, it finally gave its seal of approval in the spring 1929.

2.2.2. The loan is nearly blocked by France

A pre-condition attached to the stabilization Protocol was that the I.F.C. supervise the repayment of the loan. Thus, for the Protocol to become effective Britain, France and Italy had to sign a declaration authorizing the I.F.C. to be trustee for the loan. Theoretically, this document should have been signed in Geneva in September 1927. However, this was not possible because the French government declared that it would not sign until there was a settlement of the war debt. The Greek state owed France 539,000,000 francs for the provision of war materials. Poincare, the French minister of foreign Affairs, wanted Greece to repay this debt almost in full and in gold francs, although properly speaking it was a paper debt.[14] The French demands appeared impertinent to the Greeks not least because the British had written off the Greek debt for the supply of war material. In addition, although Poincare did not dispute that France owed 408,000,000 gold francs to the N.B.G. for covering the cost of the French army in Macedonia, he refuted the Greek government's assertion that the damages done by the French in Macedonia amounted to 137,000,000 gold francs. In his opinion the value of the damages did not exceed 68,000,000 gold francs. As things stood France was determined to come out of a war debt agreement with a net financial gain of almost 63,000,000 gold francs.[15]

The refusal of the French to sign the I.F.C. declaration at Geneva in September 1927 led to a chain reaction. On the one hand, the other two members of the I.F.C. (i.e. the British and the Italian) postponed signing the declaration in the hope that it would be possible by December for all three countries to sign concurrently and thus for the I.F.C. to maintain a united front vis a vis the international community.[16] On the other hand, the Greek minister of Finance did not sign the Protocol because he did not want Greece to undertake responsibilities and commitments vis a vis the League before the countries sitting on the I.F.C. signed the declaration.

A difficult situation arose as a result of the 'last minute decision' of France. It was technically impossible for the British and the Italians to bypass the French objection by majority vote and establish I.F.C. supervision over the loan, because at the time the French member was head of the Commission and he had veto power.[17] Nor would it have been feasible to assign the supervision of the repayment of the loan to some other ad hoc body or person such as the foreign advisor at the Central Bank, for the reason that it would have been necessary to make changes in the Protocol.[18]

Following the announcement that the French would not sign, Athens proposed that the subject of the war debt be referred to international arbitration. However, the French delegate at Geneva refused.[19] In the meanwhile, the Bank of England, the Treasury and the Foreign Office became concerned that the League scheme might fall through and that the Greeks might 'throw up' the sponge before the December meeting of the Council. For news arrived from Greece in mid October that Kafandaris was so disheartened by the obstinacy displayed by the French that he was close to deserting the League scheme altogether and was flirting again with the notion of raising a loan on the open market.[20]

Niemeyer and Leith Ross of the Treasury rushed to offer 'sound' advise to both French and Greek experts. Niemeyer privately proposed to each side that they "should agree to wipe the slate clean and call quits". Athens agreed but Paris remained adamant.[21] Tsouderos officially put forward this suggestion to the French on November 15 1927 only to have it rejected. Finally, the French under the pressure of the British Treasury and the Bank of England accepted to refer the matter to international arbitration.[22] At the eleventh hour -i.e. on December 8 1927 - one day before the December sessions of the Financial Committee and the Council were over- an arbitration agreement was signed with Greece.[23] Hurriedly, the same day the annex of the Protocol assigning the I.F.C. to supervise the loan was signed also.

Hence, in the end the whims of the French did not change the course of events. Nevertheless, this incident is important. In addition, to depicting that France, in conformity to Britain, used the I.F.C. as a lever to extract concessions from Greece,[24] it also highlights that: First, the stabilization of the drachma within the framework of a League plan was basically a British affair and that the French -to put it mildly- were indifferent as to whether the League plan would be carried out. Second, the Bank of England by this stage was keen to ensure that the Greek stabilization plan would be put into practice. If the latter did not materialize the Bank of England considered that it would suffer a blow to its and the League's prestige.[25] Third, up to the last moment Greece was not committed to the idea of a League plan cum loan.

Above the 'indirect' cost of the Stabilization Loan -namely the concessions that the government was called to make in order to secure the loan- have been presented. These, together with the financial terms imposed (as for example the real rate of interest charged), and the degree of external control it entailed constitute the total real cost of the loan. The conclusion that emerges is that Greece was a victim of the limited options it faced. Notably, its access to the international capital market was to a large extent 'determined' by the governments of Britain, the U.S.A. and France. All three exploited the power they wielded over Greece in order to extract concessions of various types.

References

1. For a description of the plus values see Book I, Introduction, section II.i. For a detailed account of these two disputes mentioned in the text see: B.G./T.A., Document 13/1. Also, A. Kalliavas, *op.cit.*, pp.49-54.

2. For details regarding the contract and the local reaction against it see: Veremis, (1982), *op.cit.*, pp.116-118; also Markezinis, *op.cit.*, pp.93-94.

3. *Εθνικός Κήρυκας*, *op.cit.*, Period B, Vol.8, (Athens, 1959), Sessions of January 31 and February 7 1927, pp.240-258. For the fact that the coalition had staked its existence in making the ratification, see: FO371/12165/C10240, Minutes of June 8 1927. Also, FO371/1298/C8639, Minutes of April 23 1927. Also, *Καθημερινή*, February 1,4,1927.

4. For the agreement reached after the ratification of the contract see: *G.G.*, First issue, Folio 60, April 11 1927.

5. The quotation is from: FO371/12924 C780/19, Annual Report for 1927. Also, FO371/11352/ Cl2539, Memorandum prepared by Howard Smith on November 25 1926. Also, Ladas, *op.cit.*, pp.637-638.

6. The British subjects were exempted expost for both the 1922 and the 1926 forced loans on the basis of article 13 of the old Anglo-Hellenic Commercial Treaty. For the pressure levied on the Greek government by the Treasury and the Foreign Office see: FO371/11350/C 7047/988/19, minutes prepared by Harvey, June 18 1926.

7. According to the Paris Agreement of 1918 the U.S.A. was to provide up to $44,000,000 drs. The U.S.A. however provided only $11,000,000. This amount with the interest had accrued to $15,000,000 over the years. For details see: Book I, Introduction, Section II.ii

8. The quotation is from the *Financial News*, May 1926. For a description of the handling of the American war debt issue under Pangalos see: Pandelakis, *op.cit.*, pp.237-259.

9. B.E./C.B.P. 327 Vol. 2, Norman to Salter, September 6 1927.

10. B.E./C.B.P. 327, Vol. 2, Norman to F.R.B., July 29 1929. For more on this matter see also same source same archive Norman to Salter July 29 1927. Also G.H.L.A./D.A., Aghnides to Tsouderos, August 4 1927.

11. M.F.A./H.A., File: 1927, A/6/B, Supplementary Refugee Loan, Kafandaris to Simopoulos, November 1927.

12. FO371/12164 C9681, Memorandum prepared by Harvey and titled: 'The League of Nations Greek Reconstruction Scheme', November 29 1927.

13. For a detailed account of the book credits issue see: G. Kofinas "Το ζήτημα των Αμερικανικών Πιστώσεων", (The Subject of the American Book Credits), *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος*, (1926-1927 issue), May.

14. Greece owed to France 539,000,000 paper francs for the provision of war material, but, Poincare was prepared to accept 500,000,000 gold francs and not one 'sous' less. For the fact that this was a paper debt, see: *The Times*, July 4 1928.

15. For the size of the respective debts see: FO371/12164/C8137/117/19, Minutes written by Sargent on October 6 1927.

16. That Chamberlain had no intention of not signing was made clear at once as he stated that: ".. so far as Great Britain was concerned he would be prepared to sign the Declaration when it was required". FO371/12164/C8137/117/19, Minutes written by Sargent on October 6 1927.

17. The position of president of the I.F.C. was given to each of the three members on a rotating basis.

18. The idea that Finlayson be placed in charge of the loan was actually put forward by Kaklamanos. Same source as reference 15 above. For the fact that the revision of the Protocol would require approval of the Council of the League "where the French veto might again be encountered" see Source mentioned in reference 11 above. For Niemeyer's position on the subject see: FO371/12164/ C98703, 'Note on the Greek Loan Position', prepared by Niemeyer, October 14 1927.

19. FO371/12164/C8137/117/19, Minutes written by Sargent on October 6 1927.

20. B.E./C.B.P. 327, Vol. 2, Siepmann to Quesnay, September 22 1927.

21. For Niemeyer's involvement in the affair and the quotation in the text see: B.E./C.B.P.327/, Vol. 2: Memorandum prepared by Niemeyer on October 15 1927, and also Moreau to Norman, October 18 1927.

22. For the fact that the British Treasury was unable to convince the F.O. to exert substantial pressure on Poincare regarding this issue see: FO 371/12164/C8137/117/19, Minutes written by Sargent on October 6 1927.

23. M.F.A./H.A., File: A/6/A, 1925-1927, document titled: "Coagreement for international arbitration", December 8 1927.

24. At this point, it is worth noting that Italy - the third member country represented on the I.F.C.- took advantage of its position to a lesser extent than Britain and France.

25. For the fact that there was a 'silent' differentiation within the British administration and that the Foreign Office as opposed to the Treasury and The Bank of England was more interested in political rather than financial stabilization per se see: FO371/12164/C8395/117/19, "Greek war debt to France", minutes, October 17 1927.

Chapter 3

The Loan

Up to early December 1927, there was no certainty as to whether the League stabilization plan would materialize. Due to the obstacles raised by France, the Greek government did not preclude the possibility of resorting to the open market for a 'stabilization loan'. And, after the French withdrew their objections on December 8 1927, for five weeks the major issue was whether the League loan would be raised by Hambros or whether the government would defect and raise a 100% American loan. The purpose of this chapter is to describe in detail how these events unfolded.

3.1. The Swedish Counter Offer

While the Financial Committee had been deliberating during its June 1927 session the terms under which the League would carry out a stabilization plan in Greece, in Athens, a group of Swedish banks, through their Greek agent, approached the government and offered to arrange a £9,000,000 loan. Reportedly, this group was controlled almost entirely by American interests and had a large amount of idle funds at its disposal. The money had been raised to purchase from the French government the national match monopoly but this project fell when the French Parliament refused to give its approval.[1]

The terms offered by the Swedes were not exactly appealing from a financial viewpoint. The proposed loan would bear interest at 7% and would be floated at 94. The spread (commission) demanded would be 7 points, i.e. the net produce of the loan would be 87 and the real rate of interest 8%.[2] However, this offer did not involve the League of Nations and the Greek government would not be required to appoint a foreign supervisor or advisor. In addition, £3,000,000 would be made available for refugee work 'immediately upon acceptance of the proposition by the Greek government'. The idea that it would be possible to raise a stabilization cum refugee loan **immediately and on the open market** inevitably appeared attractive. The Swedes had touched a soft spot for there was widespread resentment among the public and within the Populist party against the existing involvement of the League in the settlement of the refugees and the pending League stabilization scheme.

The timing of the Swedish offer, as Skinner -the American minister in Athens- noted, created an embarrassing situation for Kafandaris. The Greek minister of Finance, who was in Geneva, sent a telegram stating that the results of the negotiations held with the League were extremely favourable and hence it would not be necessary to negotiate for a loan on the open market. This statement was at the time interpreted as meaning that an arrangement had already been reached in private with Hambros. This was not far from the truth.[3]

The proroyalist press and the Populist party presented in a favourable light the Swedish proposal and embarked on a personal attack on Kafandaris who was accused of being "bound to his British friends", to such an extent that he was not open to other "more advantageous" offers than the one made by Hambros.[4] Throughout the summer of 1927 Kafandaris did not seem to give serious consideration to the Swedish offer. However, he almost came close to deserting the League and assigning the stabilization loan to the Swedes in the early autumn of 1927, because he feared that the French would not allow the I.F.C. to supervise the League loan rather than because he was influenced by the opposition.[5]

Upon being informed of Kafandaris 'fears', Niemeyer retorted that if Greece accepted the Swedish offer and rejected the League scheme, it was probable that the League might refuse to have further dealings with Athens and that the market would not look with favour on Greek loans. As a result, stabilization "would be either impossible or carried out under the worst possible conditions".[6] Thus, Kafandaris was discouraged from 'searching' for a loan on the open market either in Sweden or elsewhere. Nevertheless, the incident is of interest in that it portrays the intensity of Greek aversion to foreign control.

3.2. Final Negotiations With Hambros for the Conclusion of a Loan Agreement

Even after the Council of the League of Nations gave the green light on December 9 1927, there was no certainty that Hambros would be assigned the loan. Though the flotation date had been set for the end of January 31 1928, this uncertainty prevailed up to the 10th of January. The reason was that Kafandaris in December began to flirt with the idea of raising the League loan totally in the U.S.A. Three American firms -which incidentally had no affiliation with Hambros- made offers: Chapman & Co., J.W.Seligman & Co., and Blair & Co. Reportedly, the first two banks made offers that were not considered worthy of attention.[7] However, Blair offered to provide a 6.5% loan under terms roughly similar to those of Hambros.[8] Incidentally, this firm had raised large loans in 1922 and 1927 for railway construction in Yugoslavia.[9] (For the interest of these American banks in Greek infrastructure schemes see Book II: Section I, Chapter 2 and Section II, Chapters 1 and 2)

Kafandaris announced that he found the idea of placing a loan with Blair appealing.[10] The possibility that the League loan might be raised in the U.S.A. set off a panic at Hambros, the League quarters, and the National Bank of Greece. It is not easy to determine whether the finance minister's preference for an American flotation was genuine or whether it was simply a tactical move in order to force Hambros to improve its terms. However, Kafandaris must have sounded convincing as Tsouderos and Diomedes sped to write to him long letters in which they insisted that Greece should stick with Hambros.[11] Under the circumstances, Hambro came up the last moment with a surprise offer on the 9th of January 1928. The bank would float the loan at an exceptional 6% with an issue price of 85,5 and this move swayed Kafandaris. No other banker had offered to raise a 6% loan. The Greek minister of finance preferred this formula to the alternative offers of 7% or 6.5% because the burden on the budget would be less heavy and a precedent would be set for future flotations.[12] (See Table 1)

Table 1

Terms of the Various Loan Offers Made for the Stabilization Loan to be Raised Under the Auspices of the League of Nations (January 1928)

Issuing House	Nominal Interest Rate	Issue Price	Real Interest Rate
Hambros			
First offer	7 %	93	7.5 %
Second offer	6.5 %	88	7.4 %
Third offer	6 %	85,5	7 %
Blair			
First offer	7 %	89	7.8 %
Second offer	6.5 %	88,5	7.4 %

Compiled from: B.G./T.A., Document 22/33: Kafandaris to Zaimis, January 9 1928.

Following the government's decision to assign the loan to Hambros, a draft contract was prepared. It was placed under the scrutiny of Tsouderos, the deputy governor of the N.B.G. This procedure was necessary because Hambros tried to strike a deal more advantageous than the First Refugee Loan in two respects. It wanted to charge a higher fee and desired to include a clause stating that: "The Bankers shall have the opportunity of contracting for all future external loans proposed to be issued by the Government during the currency of this loan, upon terms not more onerous to the Government than those offered by any other party." Hambros had tried without success to include such a clause in the contract for the First Refugee Loan in December 1924.[13] The goal of Athens was to achieve at least as good, if not better terms than those holding for the first League loan.[14] Under the insistence of Tsouderos, Hambros retracted and accepted a fee lower than that charged for the First Refugee Loan. (see Table 2 below) In addition, it was not able to tie the hands of the Greeks with respect to future borrowing. The government refused to promise all future loans to Hambros, but committed itself for the one year following the signing of the contract not to float an external loan without prior consultation with Hambros and its associates who were to float the American tranche of the loan.[15]

As indicated in Table 2, the Stabilization Loan was issued on terms more favourable than the First Refugee Loan. It should be noted that whereas for the First Refugee Loan interest was charged from 40 days prior to flotation, with the Stabilization Loan it was agreed that the interest rate would only apply from the day after issue. Also, while with the First Refugee Loan provision was made for an accumulative sinking fund this was not now the case with the new contract. Similarly, whereas with the first League loan the bankers had to provide to the government the produce of the loan in instalments within three months of its flotation, with the Stabilization Loan they were obliged to grant the produce in full within one month.[16] Furthermore, with the Stabilization Loan provision was made for an early redemption. Namely, the government was allowed to begin redeeming the loan -nominally a 40 year issue- as of August 1 1938. Finally, though the loan was placed under the control of the I.F.C., it was agreed that it would not be necessary to assign new revenues to the Commission.[17]

Table 2

Comparison of the Financial Terms of the Two Greek League Loans: the First Refugee Loan (of December 1924) and the Stabilization Loan (of January 1928)

	First Refugee Loan		Stabilization Loan	
price bonds sold to public	88	%	91	%
price of issue	81	%	85.5	%
spread	7	points	4.5	points
nominal interest rate	7	%	6	%
real interest rate paid by the government.	8.7	%	7	%
redemption period	40	years	40	years
International comparisons				
average issue price of foreign government loans raised during the current year in Britain[1]	92.2	%[2]	94.8	%[3]
current banking rate (Britain)	4	%[2]	4.5	%[3]

[1]This figure does not include loans raised by countries belonging to the commonwealth.
[2]The figure given is the average for 1924.
[3]The figure given is the average for 1928.

Compiled from: Angelopoulos, *ibid*, David Butler, Jennie Freeman, British Political Facts 1900-1967, 2nd ed., (London, 1968), p.225.

Thus, the government had good reason to be pleased with the deal made with Hambros for this loan which had a nominal value of £7,500,000 and a real value of £6,500,000. Neither, did it appear to be worried any longer about whether Congress would approve the £2,500,000 credits for the refugees. (For the earlier worries of the government on this subject see: Book II, Section II, Chapter 1.) However, because there was no possibility of securing the ratification of the Congress prior to March 1928, the Financial Committee of the League pressed Kafandaris to officially announce that

> " in the improbable event of the Agreement between the Hellenic Government and the Government of the United States of America...not being ratified both by Congress and the Greek Parliament before April 30th 1928, the Hellenic Government hereby undertakes to raise, in accordance with the Protocol signed by the Hellenic Government on 15th September 1927 a loan yielding an effective amount of £2,5million sterling supplementary the public issue yielding an effective sum of £6,5 million sterling....and ranking pari passu with it".[18]

No time limit was set for the conclusion of a supplementary loan nor was any commitment made as to who would issue it and under what terms. However, the material indicates that Hambros took it for granted that it would be the one to issue a supplementary loan.[19]

Table 3

Financial Terms of Government Loans Issued Under the Auspices of the League of Nations

Country	Issue Price[1]	Nominal Interest Rate	Redemption Period	Real Interest Rate[2]
Austria(1922)	80	6 %	20	8.95 %
Hungary(1924)	88	7.5 %	20	9.25 %
Germany(1924)	92	7 %	25	7.95 %
Greece(1924)	88	7 %	40	8.25 %
Bulgaria(1926)	92	7 %	?	7.6 %
Estonia (1927)	94,5	7 %	40	7.4 %
Greece(1928)	91	6 %	40	6.6 %
Bulgaria(1928)	97	7.5 %	40	7.7 %

[1]Price at which bonds are sold to the public at the time of the flotation of the loan.
[2]This real interest rate has been estimated on the basis of the price at which the bonds were sold to the public. The expenses for commission and stamp duty have not been taken into account.

Compiled from: N.B.G./H.A., X Loans, A' Public loans, File 145, Refugee Loan: Diomedes to N.B.G., November 11, 1924; Also B.M./V.A., File 51, document titled: 'Loans', date: 1928 (month and day not specified).

Discussions about the details of the Hambros contract were over by the 26th of January and the door was open for the flotation of the loan. Interestingly, although Congress did not ratify the credits before May 1929, a supplementary loan was not raised. It is not clear why the government waited patiently for Congress! Perhaps it had no other option. No bank would have been willing to undertake such a flotation. For indeed, the record of post stabilization capital inflow was far from impressive. This development comes into stark contrast to the fact that the Stabilization Loan signified the peak point regarding Greece's foreign borrowing capability. It is indicative that it had the lowest real rate of interest among all of the loans floated on the international capital market in the twenties by: i) the Greek government and ii) the League of Nations. Indeed, as Table 3 above indicates the most onerous of the eight League loans raised (i.e. the 1924 Hungarian Loan) had a real interest rate of 9.25% compared to 6.6,% for the Greek Stabilization Loan. Also, the 1928 Bulgarian Stabilization Loan compared unfavourably with the one for Greece.

3.3. The Flotation of the Loan

The Stabilization Loan, or the Tripartite Loan as it was often called as a result of its triple purpose, was issued on January 31 1928. Compared to the First Refugee Loan the new League loan had a much more international character.(Table 4) It was fully issued outside Greece. Apart from Britain and the U.S.A., Italy, Sweden, and Switzerland participated. Indicative of its international character was the fact that there were two issues: a sterling and a dollar.(Table 5). The extent of its multinationalism, however, should not be exaggerated. In quantitative terms the loan was highly concentrated. Britain and the U.S.A. took 85.5% of the loan capital, compared to 80% for the First Refugee Loan.

Hambros headed the sterling issue (i.e. the flotation of the loan in Britain, Italy, and Sweden) but its overall responsibility was only for 44.5% compared to 61% for the First Refugee Loan. It is worth noting that the Swedish participant the Enskilda Bank belonged to the Wallenburgs. The family had been friendly with the Hambro's since 1879 and also had close connections with the League.[20] Infact, Jacob Wallenburg, the director of the Enskilda Bank, had participated in the December 1927 session of the Financial Committee.[21] Regarding the dollar issue, Hambros' arranged that it be undertaken by its American associates Speyers and the National City Bank. Both banks were familiar with foreign issues although they were not leaders in this field. It is obvious, that in substance the Greek government was not able to relieve itself from dependence on Hambros.(Table 5).

Table 4

Geographical Breakdown of the Two Greek Loans Issued Under the Auspices of the League of Nations Loans

Country	First Refugee Loan (1924)	Stabilization Loan (1928)
Britain	61 %	44.5 %
U.S.A.	19 %	41 %
Greece	20 %	-
Italy	-	5 %
Sweden	-	4 %
Switzerland	-	5.5 %

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp. 513-514, 520-521.

Table 5

Issuing Houses that Participated in the Flotation of the Stabilization Loan

Sterling Issue	
i) Hambros and Erlangers: ii) Banca Commerciale Italiana & Credito Italiano: iii) Stockholms Enskilda Bank & Skandinaviska Kreditaktiebolaget:	£ 3,370,960 £ 400,000 £ 300,000
Total nominal value of sterling issue:	£ 4,070,960
Dollar Issue	
i) Speyer and Company & National City Company: ii) Credit Suisse:	$15,000,000 $ 2,000,000
Total nominal value of dollar issue:	$17,000,000

Compiled from G.Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp. 520-521.

Apparently, the fact that this loan had an 'international' character was in large part due to the intervention of the Financial Committee and the new importance of New York. A note prepared on January 6 1928 by Felkin of the Financial Committee reveals a concern not to appear too closely associated in the eyes of the public with British financial interests. As Felkin put it to Kafandaris, a flotation with an 'international character' would be "most desirable both in the interests of Greece and those of the League". It was for this reason that the League official Felkin put forward the idea of a separate dollar and sterling issue and proposed that: the American tranche be only £2,500,000, the British not surpass £3,000,000 and that the international capital markets of France, Holland, Italy, Switzerland and Sweden raise a total of £1,119,000.[22] Felkin seemed to believe that his plan would materialize because he had the tacit consent of Kafandaris and he had prepared Sir Eric Hambro for an international flotation. Hambros duly approached Dutch and French financiers, but they showed no interest in a Greek loan.[23]

The flotation went reasonably well. The New York issue was "heavily oversubscribed". The London issue was covered by the public six times over. In comparative terms this was not a remarkable feat considering that the London tranche of the first Greek League loan had been oversubscribed by twentyone times![24] (The material at hand does not reveal how the flotation went in Sweden, Switzerland, and Italy.)

The bonds were offered to the investors on attractive terms. They were sold at a price of 91 and this was a good deal for the public considering that the average issue price of loans floated during 1928 in London and New York was 94,8. The real return to the investor at 6.6% was roughly equal to the net value of capitalisation of the Belgian Stabilization Loan during December 1927. (Table 6).

Table 6

Net Value of Capitalization of Various Stabilization Loans on December 1927

Austrian	6.10 %
Czechoslovak	7.45 %
German	6.7/8 %
Serbian	8.10 %
Belgian	6.55 %

Source: G.H.L.A./D.A., Negotiations of Tsouderos and Venizelos, London 1927, Diomedes to Kafandaris, December 22 1927.

From the government point of view it was not a bad deal. The 6% nominal interest rate charged, though not low by the standards of the day, was the lowest rate to be charged for a Greek flotation during the interwar period. The real interest rate amounted to 7% and the current bank rate in the international capital market (London and New York) was 4.5%. The 'spread' between the two figures was 2,4 points. This was low in comparison to the 4,6 point 'spread' for the First Refugee Loan. (See Table 2) Nevertheless, inspite of this improvement, the Greek government continued to remain a weak partner in the international capital market. In an ironic way the Stabilization Loan failed to become the starting point of a massive foreign capital inflow. The lateness of the scheme was an important -though not the exclusive factor- responsible for this 'disappointing' outcome! Let it be noted at this point that the issuing of foreign securities peaked in New York in 1927 and in London in 1928.[25]

At the time of the flotation of the loan there was euphoria in Greece. Although there was criticism from those who saw the loan as an enslavement to British interests,[26] it was assumed that the country was about to embark into a new era of financial stability and prosperity.[27] Abroad, the scheme was seen as a 'milestone' in the economic history of modern Greece.[28] However, concern was expressed in official circles that the government would no longer curtail its hunger for foreign loans in order to finance its infrastructure development 'programme'.[29] The tone of the

British Foreign Office report for Greece in 1927 is characteristic. Regarding the public work schemes and loans it stated that:

> "One cannot but feel misgiving, not only as to wisdom of this policy at this juncture, of further burdening the coming generations, but also lest this sudden influx of foreign capital may not lead to a 'boom' the inevitable resultant reaction from which may have the gravest results. It is hoped that those directing the economic policy of the country are alive to this danger, and will see that the loans are only taken up gradually and as the works for which they are intended progress."[30]

In the end, the amount of foreign capital that entered the country for infrastructure development proved **'inadequate'**, not because the state was hesitant to resort to the international capital market but **for the reason that it was unable to conceive and steer a well thought out economic policy**. Of course, the external environment -i.e. the drain of capital back to the U.S.A. from late 1927 and the world financial crisis of 1931- and the late date at which Greece stabilized also played a part in impeding the 'smooth flow' of capital. (For a detailed discussion of poststabilization capital inflow and the importance of each of these 'blockages' see Book II, Section III and Book I, Section III, Phase Three, Part 2).

References

1. For the fact that the Swedes had a large amount of idle funds in its hands reportedly some $80,000,000 see: B.E./C.B.P. 321, Vol.2, Siepmann to Quesnay September 22 1927.

2. U.S.A./NAT./MA5/S.D./M443/31/ 868.51 Economic Matters: Skinner to Secretary of State, June 17 1927.

3. The Bank of England archival material indicates that the contention made in the State Department papers that an agreement had been already reached in all but paper with Hambros was not far from the truth. See B.E./C.B.P.327, Vol.2, Norman to Salter, July 29 1927. That the National City Bank and Speyers proposed to undertake the American tranche is confirmed for the first time in the following document: B.E./C.B.P. 327, Vol.2, Norman to Salter, September 6 1927.

4. For the attack waged by the Populist party see: G.Vouros, Παναγής Τσαλδάρης (Panagis Tsaldaris), (Athens, 1955), pp.143-154. Also, U.S.A./NAT./MA5/S.D./ M443/31/ 868.51 Economic Matters: Skinner to Secretary of State, July 17 1927.

5. But, there was a concealed difficulty with the Swedish offer and it is not likely that it would have materialized even if Kafandaris had espoused it. The Swedes wanted the service of the loan to be placed under the supervision of the I.F.C. Had they persisted in their demand the loan would have fallen through for the reason that the Commission would in most probability not have undertaken such a task. Throughout the interwar period it agreed to supervise only the loans that were raised under the auspices of the League.

6. B.G./T.A., Document 45/16: Niemeyer to Tsouderos, October 3 1927.

7. Unfortunately the exact terms of these two offers are not described. Source: B.G./T.A., Document 22/33: Kafandaris to Zaimis, January 9 1928.

8. Blair also offered to raise a 7% type but in this instance, while the net produce that would accrue to the government would be 93 -i.e. equal to the 7% offer made by Hambros- the loan would be redeemed at a price of 105 and not 100. Same source as reference 8 above.

9. These two loans became known at the time as the Yugoslavian Blair loans. Source: R.I.I.A. (1936), *op.cit.*, p.42.

10. Kafandaris used Blair again when the subject of a productive loan came up as a means to extract better terms from Hambros. Indeed, it has been reported that he invited this American banker to make a bid for the loan. (See: Book II, Section III, Chapter Two)

11. G.L.H.A./D.A., Diomedes to Kafandaris, December 22 1927.

12. For the fact that Kafandaris was flirting with the idea of giving the loan to Blair and his indecision as to what financial formula to follow, and for why the 6% formula was in the end preferred see: League of Nations, Sir Arthur Salter, Box 18, ref: S122/Greek loan, Felkin to Salter, January 10 1928. Also for the advantages of a 6% type loan see: B.G./T.A., Document 22/35: Memo prepared by Tsouderos for Kafandaris on the 9th of January 1928. Therein, it is pointed out that the real interest rate which would burden the government with the 6% offer would be only 7.1%, whereas with the 7% offer it would amount to 7.6%.

13. It also demanded that any loss of exchange that may arise consequent upon the transfer of the moneys necessary for the payment of the service of the loan due in $ to be borne by the government. This term was not accepted by the government. In the end, with regard to any loss of exchange during the transfer of the service of the loan the same wording was applied as to article 12 of the contract of the First Refugee Loan.

14. In the Geneva Protocol of September 15 1927 the Greek government had managed to establish that the issue price, rate of interest, expenses of issue, negotiation and delivery would have to be at least as favourable to the Greek government as those of the First Refugee Loan of 1924. Also, it was stipulated that the redemption period would be at least 30 years. See Article 1 of the September 1927 Geneva Protocol.

15. B.G./T.A., Document 21/61: Tsouderos(?) to Kafandaris, January 25 1928; Also, Document 21/41: Hambro to Tsouderos, January 26 1928.

16. One minor point: as was the case with the First Refugee Loan of 1924, the unutilized funds were to be deposited in England by the bankers and the interest rate offered would be 1% lower than the going bank rate. That is it would be 3.5%. All the above are from the same sources mentioned in the previous reference. See also the contract which the Greek government signed with Hambros on January 30 1928 in the *G.G.*, First issue, Folio 49, March 31 1928.

17. However, it was agreed that the government would pledge **additional assets** as security for this loan, if during the half of any financial year the surplus revenues available amounted to less than 150% of half the amount required for its annual service. (By 'surplus revenues available' we mean the yield that remained for the service of this new loan-after deducting the amounts required for the service of the loans that had a prior charge on the revenues). Again, see the contract the government signed with Hambros on January 30 1928, in the *G.G.*, First issue, Folio 49, March 31 1928.

18. For quotation see: L.N./S, Box 18, S122/ Greek loan: Kafandaris to Strackosch. Also, see: L.N./S, Box 18, S122/ Greek loan: Felkin to Salter January 10 1928.

19. B.G./T.A., Document 21/59: Strackosch to Niemeyer, January 23 1928.

20. B. Bramsen and K.Wain, *op.cit.*, p. 361. Also, A. Teichova, M. Levy-Leboyer, H.Nussbaum (ed.), Historical Studies in International Corporate Business, (Cambridge, 1986), p.81.

21. B.G./T.A., Vol. One: League of Nations, Financial Committee, 29th Session, p.v. 14(1), December 7, 1927.

22. Felkins had allotted £300,000 to Italy, £250,000 to Switzerland, and £180,000 to Sweden. L.N./S, Box 18, S122/ Greek loan: memo titled: 'Greek loan', signed by Felkin, January 6, 1928.

23. L.N./S, Box 18, S122/ Greek loan: Felkins to Sir Arthur Salter, January 7 1928. For the fact that Kafandaris and the N.B.G. had approached the Comptoir National d' Escompte de Paris and that they had shown an interest in the loan in the event that they would be able to overcome French fiscal legislation see: B.M./V.A., File 51: Memoranda addressed to Kafandaris by Comptoir National d' Escompte de Paris, December 27 1927 and October 26 1928.

24. The information regarding the subscription is from the: L.N./S Box 18, S122/ Greek loan: Strackosch to Felkin, February 1, 1928.

25. The 1927 peak in new foreign capital issues in New York stood at $1,557 millions and the 1928 London peak amounted to £143,384 thousands. Source: R.I.I.A., (1937), *op.cit.*, pp.134,171.

26. For this point and the overall criticism made by the opposition see: Εθνικός Κύρηκας, *op.cit.*, Vol. 9, Sessions of November 21 and 23 1927, pp.58-69.

27. *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος*, issue of December 1927.

28. H.M.S.O., Board of Trade, (R.M.A. Turner), *op.cit.*, p.10.

29. M.F.A./H.A., File 1927/A/6/a: Politis to Ministry of Foreign Affairs, October 21 1927.

30. FO 371/12924/C780, Annual report for 1927.

PHASE THREE

THE STABILIZATION PLAN IN ACTION (1928-1932)

1. The Institutional Factor and the Demise of Free Convertibility

1.1. Introductory Comments

Before considering the stabilization plan in action, it is appropriate to make a few comments regarding how the plan was received in Greece, and pose two critical questions. Those who reacted most adversely to the financial reconstruction plan of the League were conservative politicians (the Populist Party) and the commercial banks. The former resented the extension of Britain's economic stronghold over Greece and the growing state interventionism. The creation of a state central bank was seen as yet another incidence of statism, although theoretically this new bank was an autonomous institution. The second group fought stabilization because they had profited from speculation.[1] It is therefore, difficult to accept the thesis put forward by recent research that: "The stabilization of 1928 which was based on the currency principle constitutes a confinement of commercial interests by the industrial-banking capital in the struggle for the political financial hegemony of the Bourgeoisie in Greece".[2] This argument is based on the false assumption that banking capital was united and homogeneous. As has already been stated the commercial banks did not share with the country's largest banking institution -the National Bank of Greece- the conviction that stabilization was necessary. Furthermore, this kind of argument overlooks the fact that the business community -the merchants and industrialists- shared certain interests in common. Namely, on the one hand they were united in their demand for monetary stability, and on the other hand they feared the possibility of a credit squeeze. Indeed, the 'tight' credit policy applied under the instigation of the Bank of England, the I.F.C., and the League (from the second half of 1925 onwards) was resented by commercial as well as industrial interests. Thus, in no way is it possible to establish a case for a concerted action on the part of the banks and industrialists.

If stabilization is to be viewed in terms of power struggles, it would be more accurate to propose the following interpretation: Stabilization marks the imposition of a radical reform in the banking system which was instigated by foreign control and 'passively' condoned by the state. As a result of this process the National Bank acquired a more liquid and healthy portfolio and was able to concentrate more effectively than before on the development of Greek industry. But, it must be underlined that this last phenomenon was an 'unwitting by-product' of stabilization, that it involved only one bank and not the whole of the banking system.

Moving on to the questions, the foremost one that cries for an answer is: in what way were political and financial stabilization interconnected? Which preceded the other? Political stabilization appears to have preceded financial stabilization but also to have resulted from it. This may seem a contradictory statement but it depicts the situation as it evolved. On the one hand, prior to the setting up of the League scheme, the coalition government showed to the nation and the outside world that Greece was well on its path to attaining a true parliamentary democracy and adjusting to the post war modus vivendi. Irredentism, militarism were pushed aside and the war debts were settled. On the other hand the existence of the coalition was staked on the League scheme and financial stabilization. That is political stabilization came to depend on financial stabilization. This was something which was recognized both at home and abroad. The following two quotations may attest to it. Venizelos wrote to Kafandaris on April 7 1927: "...without foreign assistance the rehabilitation which is required for the reestablishment of normal political life will not be possible...". A few months later a Foreign Office Official wrote in the minutes of his department:"We must, I think face the fact that if the Greek loan is again held up at the December meeting of the Council the Greek Government would almost certainly fall and Greece will once more enter the period of coups d'etat and military dictatorships from which she was, after infinite difficulty rescued last year."[3] Another significant question is whether Greece's financial supervisors actually impeded Greece from stabilizing? They did not but it is clear that they prevented her from stabilizing on her own terms and possibly delayed stabilization until the eve of the inter-war depression. The Greek perception of what stabilization should entail did not coincide with either the philosophy or policy goals of her financial supervisors.

1.2. The Contribution of This Thesis

In April 1932 the drachma reverted to the system of forced circulation. The collapse of free convertibility was in large part a result of the cumulative negative impact of the world financial crisis on Greek external accounts. These circumstances and the inability of Greece to eliminate its trade gap throughout the twenties has been analysed extensively.[4] (For data on the chronic structural gap in the balance of trade and the imbalance in the balance of payments see Appendix 3, Tables 1 and 2). However, it is our contention, that free convertibility was doomed to fail even if the aforementioned factors had not existed; The reason being that the new institutional framework created by Greece's supervisors was not allowed to function smoothly. The purpose of this section is to trace the unfolding of this process and uncover the incentives as well as the actions of the various actors who opposed the new banking order. Seen in a larger compass the Greek stabilization plan demonstrates the difficulties associated with structural change when it is imposed by external fiat. Legal stabilization and the founding of the central bank opened up a new page in the story of Greece's 'inherent resistance' to the principles of orthodox monetary and fiscal policy as perceived by the British. The Bank of Greece during the years of free convertibility was caught in the center of a whirlpool. It failed to manage the gold standard in a satisfactory way because it suffered from 'structural flaws'. On the one hand, it was not willing to satisfy all of the guidelines as laid down by the Geneva Protocol of September 1927. Diomedes, the French and German educated governor of the Bank of Greece, never really dropped his 'banking' school principles and failed to adopt wholeheartedly the precepts of the 'currency' school as propagated by the Bank of England. On the other hand, the Bank of Greece operated in a hostile environment. Venizelos, who became once again Premier shortly after stabilization, took too long to grasp the significance of why it was necessary to have a central bank. He also did not abide by the fiscal rules as laid down by the League of Nations in the Geneva Protocol. As for the National Bank of Greece and the commercial banks, they literally exploited free convertibility in order to erode the foreign exchange reserves of the Bank of Greece. What is more, the I.F.C., although it was in principle a staunch supporter of monetary stability 'undermined' stabilization by refusing to alter its methods regarding the administration of the assigned revenues that came under its authority!

The campaign of Venizelos, the National Bank of Greece and the commercial banks has been presented in the literature.[5] However, no reference has been made to contributory action by the I.F.C. The reason for this oversight may be that the antiparathesis between the I.F.C. and the League during the term of free convertibility did not receive publicity in Greece. The country's supervisors pleaded with Greek officials not to expose them in public.[6]

1.3. The Government Reneges on to the Geneva Protocol

Regarding fiscal policy, already in 1928-1929, the state broke the commitment it had undertaken not to raise budget expenditure above 9,000,000,000 drs. until the end of the financial year 1929-1930.[7] It also wasted the large budget surpluses of 1927-1928 and 1928-1929. Only during these two fiscal years was the state able to attain substantial surpluses.[8] (See Table 3, Appendix 3) The second way in which the state undermined stabilization was indirect. Venizelos took it for granted that financial policy was to be dictated by the cabinet and not regulated by the central bank.[9] It was usual practice for the government to issue orders regarding the level of the discount rate or operations on the open market.[10] The Bank of Greece did not always comply-thanks to the intervention of Horace C. Finlayson, the financial advisor appointed to the bank by the League of Nations. For example, in September 1930 -at a time when the Bank of Greece was loosing large amounts of gold- the government ordered the Bank of Greece to lower the interest rate by 1 unit because industry was crying out for more funds. Apparently, the foreign advisor for reasons of central banking prudence did not allow the bank to obey this command.[11]

Apart from intervening in the sphere of credit policy, the government slighted the Bank of Greece in one more respect. It failed to consult it on general financial matters. One example is that the Bank was not asked to participate in the negotiations for the conclusion of the first loan to be raised after stabilization for infrastructure development. (See: Book II, Section III, Chapter 2).[12] In the words of a British Foreign Office official:

> "the present [i.e. Venizelos] Government, led as it is by a statesman of great determination and self-will, is not in the least likely voluntarily to contribute towards the growth in importance and power of an institution [i.e. the Bank of Greece] which having become strong enough, could dictate financial policy to the Government itself, unfettered by statutory obligation or indeed by anything but the civic virtues of its governors".[13]

Finlayson's statement that the government tried to strangle the central bank at birth may have been an exaggeration. However, the fact was that, it did not respect the autonomy of the bank and was slow to realize the expediency of strengthening it vis a vis the commercial banks. Actually, Venizelos began to back the independence of the Bank of Greece and give it strength vis a vis the N.B.G. and the commercial banks only once the world crisis broke out.[14]

1.4. The Campaign of the N.B.G. and the Commercial Banks Against the Bank of Greece

The National Bank of Greece wanted to retain its quasi monopolistic position in the banking sector. It was for this reason that it proposed to act as the permanent representative of the Bank of Greece in the countryside. The Bank of Greece rejected this proposition mainly because a large part of the foreign exchange coming into the country was concentrated in five major provinces. Thus, by May 1931 the central bank had set up 8 branches and 11 agencies in the countryside.[15] However, the National Bank managed to impede the centralisation of the state funds. In short, the story had as follows: The Geneva Protocol stipulated that within two years the accounts of the various Caisses (Public fund bodies) of the State would have to be transferred to the new central bank. As things stood all the (available) surplus funds of the Caisses were deposited by a special arrangement with the National Bank of Greece. The latter had made a good profit from this 'deal' because the amounts involved were large and the interest it paid to the Caisses was 1% lower than for other depositors.[16]

In February 1928, the N.B.G. 'pressed' the Greek government to extend its exclusive right to hold the surplus funds of the Caisses up to 1951. Naively, the governor of the Bank of Greece, Diomedes, seconded the N.B.G. in its request because he did not want to see his old institution completely emasculated as a result of the banking reform and because he believed that the National Bank would not use these funds to 'fight' the new central bank.[17] This move was against the letter of the Geneva Protocol. Niemeyer and Finlayson voiced a strong objection on the grounds that the centralisation of the public funds was "vitally necessary for the proper control of credit and currency".[18] They feared that the N.B.G. would employ these funds in the market in such a manner so as to undermine the financial policy of the Bank of Greece.[19] However, in view of the insistence of the N.B.G., the Financial Committee was forced to go halfway. A compromise solution was reached in July 1929, whereby it was agreed that the N.B.G. would retain the surplus funds of the Caisses so long as the Bank of Greece did not consider this arrangement would conflict with its credit policy. In mid 1930, the Bank of Greece appointed a representative to the board of directors of the Caisses because it felt that the N.B.G. was exploiting its position of power.[20] Nevertheless, this corrective move did not alter the basic fact that the Bank of Greece had a limited capacity to intervene in the open market. Notably, three years after its establishment, the total portfolio of the Bank of Greece was only 365,000,000 drs. whereas that of the National Bank was 6,000,000,000 drs.[21]

Apart from the fact that it was short of funds, the Bank of Greece was in a precarious position because its very existence was staked on its ability to maintain free convertibility. According to its statutes the issuing privilege could "be revoked at any time" if the bank failed to ensure that the gold value of its notes remained stable.[22] The task of sustaining the drachma at a stable value did not prove easy. In the second half of 1928, during what was the 'stabilization' euphoria stage, there had been a net inflow of foreign funds in Greece for the purpose of buying Greek securities. But, this 'exceptional' trend did not last. Already from the beginning of 1929, foreign finance was scared away as a result of Venizelos' policy regarding the exchangeable bonds and the intense criticism waged against Power and Traction for its handling of the Athens electricity concession. What is more, a concerted drain in exchange took place as the large commercial banks invested some £3,000,000 abroad in order to speculate in foreign securities. By a twist of irony, in 1931 - by which time it had become apparent that the Bank's reserve was being rapidly depleted- the commercial banking community began to put pressure on the government to amalgamate the Bank of Greece with the National Bank of Greece. (For the depletion of the foreign exchange reserves of the Bank of Greece see below Table 1) This exasperated Niemeyer. As he put it this proposition was crazy and the Central bank's lack of strength was due to the fact that from day one the trading banks had fought it.[23]

Table 1

Foreign Exchange and Gold Reserves of the Bank of Greece in Pound Sterling

May 14 1928	£ 10,570,663
End of 1928	£ 11,297,935
End of 1929	£ 8,316,000
End of 1930	£ 8,028,533
September 26 1931	£ 4,716,836
End of 1931	£ 3,422,448
April 26 1932	£ 650,264
End of 1932	£ 1,894,248

Compiled from: B.G./T.A., Document: 23/1, League of Nations, Financial Committee, Extraordinary Session held in London, June 6-14th 1933, Report to the Council on Greece, p.31. Also Document 46/83. Memo prepared by Finlayson, November 19 1929.

The Bank of Greece eventually improved somewhat its control over the commercial banks during the financial crisis of 1931-1932. In early 1931 a bill was passed obliging the banks to either keep a reserve of 12% or deposit 7% of their sight deposits in a blocked account at the central bank. Let us remind the reader that this measure which was in agreement with the orthodox 'banking' principles of the day had been initially advocated by Sir Henry Strackosh when the statutes of the bank were being drawn.[24] However, it should be underlined that the passing of this 'orthodox' bill did not signify that henceforth the Bank of Greece consistently or blindly copied the principles of monetary restraint and accepted advice offered by the Bank of England officials. A notable example is that at the end of 1931 and the beginning of 1932 -at which point of time the drain on its foreign exchange reserves by the commercial banks had attained massive proportions- it pursued an 'unorthodox' policy from the point of view of orthodox central banking principles. Namely, it increased substantially its commercial credits and discounts in order to enhance its position in the market.[25]

To recapitulate. The stabilization plan was not applied wholeheartedly by the Greek authorities. The fiscal guidelines laid down by the Geneva Protocol were not adhered to. More importantly, prior to 1930-1931 the Bank of Greece was not able to function as a true 'Bank of banks'. It was basically an 'outside' institution, run by a governor who did not want to change drastically the existing organization of the banking sector. The government did not take it seriously. For its part the N.B.G. wanted to maintain control over credit policy and entertained the hope that it might one day amalgamate with the Bank of Greece. As for the commercial banks they were consistent to their tradition of going after a quick profit. They were against the existence of a stable drachma. As they saw it, the new monetary framework installed by the League had robbed them of large profits they had made in the past in exchange speculation and they were determined to exploit convertibility so as to find a new source of income (i.e. speculation in foreign securities). It should also be noted that the commercial banks resented the Bank of Greece because they were against the system of rediscounts it established. In the past, the N.B.G. had given the commercial banks unwarranted credits at very low interest rates "in order to appease or mitigate them" for the fact that they lived a shadowy existence.[26]

1.5. The I.F.C 'Undermines' Stabilization

The I.F.C. as opposed to the commercial banks did not want to undermine stabilization. However, it unwittingly contributed to its demise because it was not willing to divest itself of the arrangements established by the Law of Control back in 1898 regarding the management of the assigned revenues. Namely, these were:i) the blocking in its account for long periods at a time funds that belonged effectively to the government, ii) the purchase of foreign exchange whenever this suited it on an irregular basis and iii) the holding of large balances abroad. This state of affairs had been set up at a time of monetary instability in order to protect the interests of the bondholders in the event of a Greek financial collapse. However, from the moment that Greece stabilized, these safeguards appeared to be no longer necessary (at least theoretically!) and interfered with the smooth functioning of free convertibility.

It is notable that the I.F.C. at the beginning of each financial half year retained all the proceeds of the assigned revenues until it secured in foreign exchange an amount sufficient to service the debt for that half year. This safeguard did not interfere with monetary policy directly. However, it served to weaken the state portfolio considering that the I.F.C. controlled almost half of the country's tax resources. The flow of receipts into the hands of the government was irregular and for long periods- indeed many months at a time large sums became immobilized in the hands of the I.F.C.[27] It was quite a usual phenomenon for the Commission's deposits with the Central Bank to be abundant whereas the deposits of the state were insignificant. For example, in February 1931 the I.F.C. held with the Central Bank a deposit in excess of 200,000,000 drs. whereas the state in its current account held only 10,000,000 drs.![28] This situation helped to enlarge the internal debt, for the quixotic situation arose whereby the Bank of Greece would lend to the government at a high interest rate funds that really belonged to the government![29] Finlayson, asked the I.F.C. to spread over the year the amounts retained by the assigned revenues.[30] But, the Commission refused to accede to this demand, and it brought up the legal point that to depart from its usual practice would entail a transgression of the Law of Control.[31] However, in the spring of 1931 it made the following concession: to "pay over [to the government] of its own accord from time to time such sums [i.e. surplus revenues] as may safely be released without any formal surrender of [the] priority rights of the bondholders".[32] The government was not satisfied by this concession and it actually threatened to appeal to the League of Nations. In the end, this threat was not carried out as Ramsey of the British Legation in Athens 'scolded' Venizelos by asking whether the latter would like the removal of the I.F.C. altogether.[33]

Regarding the second practice, the I.F.C. purchased the exchange required for the service of the foreign debt under its control during the first two months of every half year. In the past - i.e. during the days of monetary instability, the yield of the assigned revenues left a margin of 50-60%. But, after stabilization this increased to 180%.[34] Thus, this policy of the I.F.C. to hold large exchange balances abroad appeared anachronistic.[35] Finlayson tried without success to convince the I.F.C. to spread the purchases of foreign exchange on a monthly basis and to transfer its foreign account to the Bank of Greece.[36] He also wanted the I.F.C. to stop buying more foreign exchange than was necessary for the annual service of the loans under its control.[37] Finlayson went so far as to claim that following stabilization, the I.F.C. had become an anomaly because it was an independent body which for all practical purposes was "free to determine its foreign exchange operations without any absolutely control by the Bank of Greece".[38] To put it succinctly, he looked down upon the I.F.C. and tended to treat the latter as an institution subordinate to him and the Bank of Greece.

This attitude of Finlayson did not please the British Treasury. The latter did not want the I.F.C. to surrender its priority rights. However, following Britain's suspension of the gold standard in September 1931, it urged the Commission to become more compliant towards the Bank of Greece so that the negative consequences of this measure on the external value of the Greek drachma might be alleviated. Thus, in late September 1931 the Commission 'allowed'

100,000,000 drs. (i.e. the surplus in its current account) to be placed on time deposit with the Bank of Greece till December 31 1931, in order to improve the reserve position of the Bank of Greece which at that stage had fallen below the statutory minimum level.[39]

Probably, the most interesting aspect of the undermining of free convertibility by the I.F.C. is the conflict which developed at a personal level between Roussin, and Finlayson. Roussin was appointed on the I.F.C. by the British Treasury whereas Finlayson was chosen by the Bank of England.[40] Finlayson appears to have acted with a relative degree of freedom from the Bank of England and the Financial Committee of the League of Nations. Nevertheless, to a certain extent his antithesis with Roussin can in part be attributed to the fact that the Bank of England had a wider perspective towards stabilization than the Treasury.

The origins of Finlayson's poor relations with Roussin dated back to the autumn of 1928. At that time, Finlayson had apparently advised Venizelos to lower the interest rate of the first series of the exchangeable bonds that had been issued in 1926 from 8% to 6% on the grounds that Greek credit had improved since stabilization and such a high rate of interest was no longer warranted. The proceeds of this 20 year bond loan which had a nominal and real value of 3,500,000,000 drs. (i.e. the equivalent to £9,055,627) went towards indemnifying the refugees for the immovable property they had left behind in Turkey.[41] Though this was an internal loan a large quantity of these bonds had been chanelled through the London Stock market. It was believed that one English group held about £1,000,000 worth of these bonds. Naturally, the I.F.C. was perturbed by Finlayson's proposal. It argued that such a move would be against the interests of the bondholders as well as the standing of Greek credit in the City. As Finlayson came under fire from the Treasury and the British Legation in Athens, he was forced to recant and convince Venizelos not to go ahead with his proposal.[42] Interestingly, the Foreign Office supported wholeheartedly Roussin in the attacks made against the I.F.C. by Finlayson.[43] It believed that there was "something to be said for a system [i.e. the I.F.C.] which enables what is virtually an outpost of the Treasury on the Greek territory to be maintained at Greek expense".[44]

The British financial supervisors of Greece were not capable of integrating in an effective manner I.F.C. responsibilities and the League inspired stabilization plan. Their approach to Greek affairs was in this respect ad hoc and was lacking in resolution and boldness. Moreover, neither the League of Nations nor the Central Bank of Greece had foreseen the extent of the attack the latter was to suffer from the banking establishment and the government. On paper the Bank of Greece may have been the most modern institution created by the Bank of England at the time, but in reality it was vulnerable. It was able to attain the dominant position that had been envisaged by the Bank of England gradually and only after a series of legal measures were passed by the state in 1931. These measures were passed at the instigation of Finlayson, representing the League of Nations, and the pressure brought about by the world economic crisis. The League of Nations encouraged the undertaking of legal measures that would curtail the strength of domestic opposition to stabilization, but had shied away from forcing the I.F.C. to alter the anachronistic practices of the Law of Control. Could it be that the League did not want to interfere in the workings of this international organization because it did not want to set a precedent, in the sense that it did not want to encourage the inherent tendency of the Greek state to disclaim international agreements?

1.6. Convertibility is Abandoned

The world crisis was felt in Greece. There was a contraction in trade, the interest and profits of Greek capital invested abroad plunged, and the deficit in the current balance of payments grew. In addition, the drop in imports led to a fall in custom revenues which formed a large percentage of government revenues. (See Tables 1,2,3 in Appendix 3). However, the one event that had the greatest repercussions on Greece was Britain's decision on September 20 1931 to go off gold.[45] More than 25% of the foreign exchange reserves of the Bank of Greece had been in pound sterling. Thus, overnight the reserve fell below the statutory lower limit of 40% of currency in circulation and sight deposits. (It should be noted that when the Bank of Greece opened in May 1928, its cover had been equivalent to 53% of currency in circulation and sight deposits).[46] The suspension of the pound created a stir in Greece for an additional reason. For more than a century the Greek business community had made its quotations in sterling. Infact, according to Diomedes "many Greeks doubted the existence of God, but none had ever doubted the soundness of the pound sterling".[47] The government did not follow the British example. It did not want to abandon the gold standard because it feared that such a move would damage its image abroad and would "signal a headlong flight from the drachma".[48] Thus, on September 21 1931, the drachma was tied to the U.S.A. $ at a rate of $1=77.05 drachmae. (The rate of the drachma to the dollar had been since stabilization 77 drs. to the U.S.$).

During the seven days that followed (i.e. from September 22 to September 27) there was much private speculation in foreign exchange as a result of the growing mistrust in the drachma. The central bank lost $3,419,301.[49] Nevertheless, Venizelos insisted that Greece not desert free convertibility. Thus, on September 28 1931 a package of 'temporary' measures was taken for the protection of the national currency.[50] Inspite of these measures, by January 1932 the financial situation of Greece had become precarious. The foreign exchange cover of the Bank of Greece had fallen to $16,000,000 - this was less than 30% of the monetary circulation and sight deposits. Also, Greece was experiencing difficulty in securing the necessary foreign exchange to cover the maturing April 1 1932 coupons for the 4% 1910 Loan and the Athens Water Loan.[51] In addition, for the first time since 1927 there were signs that for the coming fiscal year the state budget was going to run a deficit.

In a desperate effort to stave off a financial crisis Venizelos appealed to the governments of Britain, France and Italy (i.e the three member countries represented on the I.F.C.) to grant Greece a $50,000,000 loan in order to complete the land drainage schemes (in four annual installments of $12,500,000 each) and to 'allow' Greece to suspend amortization payments on the foreign debt for a period of five years.[52] In order to prepare the ground for a loan cum moratorium the Prime Minister also asked the Financial Committee of the League of Nations to undertake a new report on the financial situation of the country. At the time the League was also studying how to assist Austria, Hungary and Bulgaria to cope with the world crisis. The Financial Committee showed some understanding. It suggested that Greece suspend the service of the foreign debt for one year, that the payments for the sinking fund (i.e. 330,000,000 drs.) be deposited in drachmae at the Bank of Greece, that the Bank of Greece lend this amount to the government in order to finance outstanding public work schemes, and that a temporary loan of $10,000,000 be raised with the guarantee of the Powers until arrangements could be made for a long-term loan. But, when it met in mid April 1932, the Council of the League adopted a hard stance. It decided that the suspension of the payment of the foreign debt was an issue which would have to be discussed between the bondholders and the Greek government. In addition, it did not comment on the question of a loan either to Greece or the other countries that had appealed to her in order to maintain free convertibility.[53]

Upon learning of the Council's decision on April 15, Venizelos declared a temporary suspension on the payment of the foreign debt. The Ambassadors of Britain, France and Italy issued a formal declaration against the government in which they insinuated that there would be reprisals. Since Greece knew that it could not raise a loan under any conditions this threat had no practical value. On April 24 1932 convertibility was finally abandoned. In September 1932, Varvaresos, the new governor of the Bank of Greece announced that for 1932-1933 Greece would suspend payments on the sinking fund and would cover only 30% of the interest payments.[54]

It was a mistake for Greece to have maintained convertibility after Britain left the gold standard. Notably, Niemeyer had urged the Greeks in the spring of 1931 to follow the example of Britain. However, the Greek Prime Minister and the Bank of Greece rejected the suggestion. They naively believed that if Greece remained on gold it would be able to further tap the international capital market.[55] The Greek authorities had also made one more mistake. Prior to Britain's leaving the gold standard the Bank of Greece had been advised by the Financial Committee to convert all of its pound sterling reserves into dollars. However, it had converted only half of these reserves into dollars.[56]

In a nutshell, Greece suffered from two disadvantages. It went on gold at too late a date in order to reap the full benefits of international capital flows during the boom of the twenties. Also, in an ironic way, it went off gold too late. In closing, it should be remarked that Venizelos in the spring of 1932 suggested that Greece ought to have suspended payments on the foreign debt in 1920 after the ex-Allies imposed a financial embargo as a result of the return of King Constantine. Had such a measure been taken for nine consecutive years he argued that there would have been an economy of £31,000,000 and the First Refugee Loan, the Stabilization Loan and the two Public Work loans would not have been necessary.[57] What a peculiar logic. In essence Venizelos simply raised a false dilemma which exposes the naivete with which Greek politicians faced the issue of foreign economic relations. For the total borrowing during 1922-1932 was almost £40,000,000 and not £31,000,000. In addition, which foreign contractor would have undertaken a public work project had the state defaulted? Moreover, would this economised sum actually have been spent on the projects stated or would it in the end have been wasted? Finally, it cannot be overlooked that borrowing overseas was an addition to foreign exchange reserves.

2. Post-stabilization Capital Inflow Outside the Public Sector: The Case of the Hellenic Trust

As has been noted, stabilization and the adoption of the gold exchange standard system did not trigger a flow of foreign capital, certainly not into the public sector of the economy. The following pages will present the reasons why, after stabilization, international finance continued to display a limited interest in Greek industry.

Prior to our period of study, the tobacco trade, insurance, shipping, mining and carpet manufacturing had been the only economic activities of the private sector which had experienced an inflow of foreign credit and direct investments.[58] This limited presence of foreign capital in Greek business had been the product of a spontaneous procedure (i.e. the international capital market had come to Greece and not vice versa). On the eve of stabilization a novel development occurred: the N.B.G. turned to the City of London in an attempt to secure funds for Greek industry.[59] Following the refugee influx, a large number of firms had sprang up and the domestic capital market was not in a position to supply their long-term capital needs.[60]

This move on the part of the National Bank is testimony to the peripheral status of the Greek economy. Unlike the case in other countries (for example Italy), even after stabilization Greek enterprises were not able to acquire direct access to the international financial market.[61] Indeed, throughout the years of the Gold exchange standard system in Greece, it was only via the National Bank of Greece that industry was able to secure foreign funds. This institution was able to act as an intermediary between Greek entrepreneurs and foreign capital because of its links with foreign capital, the strengthening of its financial position (due to the banking reform), and its growing involvement in Greek industry.[62]

The framework set up for the flow of foreign funds to Greek industry was the following. An English registered Investment Trust was created in London in January 1928 by Hambros, Erlangers, the N.B.G. and the Ionian Bank. It was named the Hellenic and General Trust Ltd.. With a paid up capital of £1,000,000, its size was that of a typical English investment Trust.[63] (At the time, there were 152 Investment Trusts in Britain.) The policy of the Hellenic and General Trust Ltd. was dictated by Hambros and it served as the nucleus for the industrial credit department of the N.B.G. Pointedly, by WWII, the N.B.G. had become the single most important source of credit for Greek industry and the sole 'proto' development bank in Greece.[64] (See Appendix 4, Table 2)

For the student of foreign capital flows, the special significance of this experiment lies in that it serves to underline the indifference of foreign capital towards Greek industry prior to WWII. Within this context, the following features of this Anglo- Hellenic joint venture are the most significant. First, Hambros -the foreign banker most familiar with Greek financial affairs- was not eager to lend directly to Greek industry. It got involved in this field as a favour to the N.B.G. and the Greek government in order to increase the chances that it would be assigned the flotation of the First Public Works Loan and the financing of major municipal works in Athens.[65] Second, Hambros was not willing to provide all of the Trust's paid up capital. Thus, it posed as a sine qua non for the creation of the Trust, Greek participation of some 33.5% [66] Third, there was a large discrepancy between the Hambros and the N.B.G. view of the purposes of the Trust. The former wanted it to have a general character- as was the case with most English investment Trusts at the time. Namely, it did not want the interests of this body to be tied exclusively either with Greece nor with Greek industry in particular. The National Bank, on the other hand, wanted the Trust to be solely geared towards financing Greek industry.[67] Fourth, although the capital of the Trust was £1,214,770, in total only £479,000 was furnished to Greek industry. The reason being, that after August 1930 (i.e.two and a half years after the Trust was established) Hambros lost all interest in Greek industry. This was due to a combination of factors, of which the onset of the world financial crisis was only one. The most important factors were the following: i) Hambros, with whom the final decisions upon applications for industrial loans rested, was not always provided with sufficiently detailed information by the N.B.G.[68] ii) The N.B.G. seemed to view rationalization in much looser terms than Hambros. The latter was inclined to insist that loans be given to companies that were well organized and efficiently managed. Infact, it was usual for it to demand that the Trust acquire some management control over the borrowing firms. But, most companies irrespective of size were family concerns and the idea and practice of relinquishing family control over management in return for large loans was not acceptable to most Greek industrialists. To put it plainly, Greek private business concerns wanted foreign finance but not foreign control.[69] iii) The poor performance of some of the borrowers in repaying their debts had already become apparent.[70] Once the Greek government posed restrictions for the outflow of exchange in September 1931, given Hambro's already apparent withdrawal symptoms, it was only natural that the flow of the Trust's capital into Greece would already dry up. To state the obvious: Even if Hambros had remained committed to Greece, surely there would have been no further Trust investments for some time following this government measure. However, this should not underscore the fact that the Trust failed to secure larger amounts for Greek industry basically for reasons related to the underdeveloped state of the latter and the institutional framework within which it operated.[71] Fifth, regarding the investment criteria of Hambros three things are notable: i) 61% of the amount lent went to cement, distilleries, wine, electricity and textiles. (Tables 1 and 2) The last sector was both large and fast growing. The other sectors were small but, with the exception of wine, they were dynamic in terms of their rate of growth. For example, between 1928 and 1938, in terms of volume, electricity output almost quadrupled and cement output doubled. (See Appendix 4, Table 3). ii) As a rule Hambros turned down applications from small companies. This feature was not peculiar to Hambros. For most trusts and merchant banks the costs of dealing with small businesses were considerable as it was difficult to assess their needs and viability. Hambros preferred large, secure and well established firms with favourable prospects. Thus, most of the companies which received loans from the Trust had already by 1925 acquired an important place in Greek industry, which they maintained even after WWII. (See Table 3). As has already been noted above, Hambros wanted to push rationalization- merger schemes. For example, in the spring of 1928 the Olympus Cement Co. made a request for a £80,000 loan. Hambros imposed as a precondition that the firm amalgamate with one of the large cement companies so that it could be competitive. Hence, instead of granting a loan to Olympus, in October 1928 the Trust gave a £60,000 to the General Cement Co. 'Hercules' with which Olympus had merged.[72]

Table 1

Sectoral Breakdown of Loans Granted by the Hellenic and General Trust Ltd.

Sector	Amounts granted by the Hellenic and General Trust Co. (In £)	Percentage of total amount granted by Hellenic and General Trust Co. to Greek Industry
I. Construction		
i. Gen. Cement Co 'Eraklis' S.A	60,000	
ii. Cement Co, Titan	60,000	
iii. Greek Potterers 'Kyklops' S.A	12,000	
Total	132,000	27.5 %
II. Food		
i. A.P. Cambas (wine)	15,000	
ii. Distilleries S.A	60,000	
iii. A. Aliprantis & Sons (wine)	3,000	
iv. Michaelidis and Konstantinis (pasta)	3,000	
v. Olive Oil Co, of Greece	25,000	
Total	106,000	22 %
III. Textile		
i. G. Tsitsis and Sons	10,000	
ii. G. Tsitsis and Sons	12,000	
iii. Shipping Co V.I Tourpalis S.A	5,000	
iv. Tournivoukas and Bros	2,000	
v. Piraiki Co S.A.	20,000	
vi. Jute Factory "Torres"	8,000	
Total	57,000	11.8 %
IV. Electricity		
i. Electric Co of Volos S.A.	25,000	
ii. Greek Electricity Co S.A.	5,000	
iii. Greek Electricity Co S.A.	20,000	
Total	50,000	10.4 %
V. Metallurgy and Mining		
i. Greek Metallurgy S.A.	6,000	
iii. French Mining Co of Lavrium S.A.	20,000	
Total	26,000	5.4 %
VI. Agricultural Tools		
i. M.K. Stamatopoulos and Sons	7,000	
ii. M.K. Stamatopoulos and Sons	4,000	
iii. Glavanis Industry S.A.	12,000	
Total	23,000	4.8 %
VII. Wood Processing		
i. Building and Wood Co 'Elloul " S.A.	8,000	
ii. Building and Wood Co 'Elloul " S.A.	7,000	
iii. Georgiades and Sekeris	3,500	
Total	18,500	3.8 %
VIII. Chemical Products		
i. Chemical Inustry S.A.	15,000	3.1 %
IX. Miscellaneous		
i. Greek Co of Electrical bulbs S.A.	4,000	
ii. E. Poulopoulos and Son Hat makers S.A.	15,000	
iii. N. Karastamatis	2,000	
iv. Eleftheroudakis Publishing Co, S.A.	5,500	
v. General Co "Vio"* S.A. (car bodies)	25,000	
Total	51,500	10.7 %
Grand Total	479,000	100 %

*£50,000 was given to this company but it transferred half of the amount to the Olive Oil Co of Greece. Vio S.A. participated in the creation of the Olive Oil Co thus we put the amount of £ 25,000.

Source: Compiled from data in: NBG/HA XXII Banks, IE Banking Institutions File 38: the report of Dec. 1939 on the Hellenic and General Trust Ltd.

Table 2

Selected Branches of Industrial Production

Branch	% of Total Value of Greek Industrial Production 1928	1938	% of Total Amounts Granted by the Hellenic and General Trust Co. to Greek Industry (1928-1939)
Construction			
i. Cement	1.9	2.2	25
ii. Potteries	0.5	0.1	2.5
Food			
i. Distilleries and Wine	0.09	0.06	16
ii. Pasta	2.06	1.8	0.6
iii. Olive oil	No inf.	No inf.	5.4
Textiles			
i. Cotton speaning weaving	9,3	10.6	10.2
ii. Jute	1.2	0.7	1.6
Electricity	5.9	8.4	10.4
Mettalurgy and Mining	0.9	0.5	5.4
Agricultural tools	0.12	0.04	3.8
Wood processing	4.7	3.8	3.8
Chemicals	13.9	21.8	3.1

Source: Data compiled from G. Haritakis (ed.), Economic Yearbook of Greece for 1939 (Athens, 1940), pp. 188-265.

Table 3

Rough Estimates of the Importance of the Firms to which the Hellenic and General Trust Ltd. Made Mortgage Loans

Company	1925	1949*
General Cement Co 'Eraklis' S.A.	2nd (in importance) cement	A
Cement Co 'Titan' S.A.	1st cement	A
Greek Potteries 'Kyklops' S.A.	1st pottery	A
A.P. Cambas	2nd wine	A
Distilleries S.A.	1st distillery	
A. Aliprantis and Sons	Not mentioned	B
Michaelidis and Konstantinis	1st Pasta	A
Olive Oil Co of Greece**	Not mentioned	A
Tsitsis and Sons	Large textile	B
Spinning Co V.I. Tourpalis S.A.	Large spinning	B
K.P. Tournivoukas and Bros	Large Textile	D
Piraiki Co S.A.	1st spinning	A
Jute Factory 'Torres'	Large Jute factory	A
Electricity Co of Volos S.A.	One of the largest electricity plants	C
Greek Electricity Co S.A.	1st electric.	A
Greek Metallurgy S.A.**	2nd metallurgy	Not mentioned
French Mining Co of Lavrium S.A.	1st mining	A
N.K.Stamatopoulos and Sons	Medium to small agric. tools	A
Glavanis Industry S.A.	1st agric. tools	A
Building and Wood Co 'Elloul'	Large wood processing	A
Geordiades and Sekeris	Large wood processing	A
Chemical Industry S.A.	Large chemical	A
E. Poulopoulos and Son Hatmaker of	1st hat	Not mentioned
Greek Co of Electrical Bulbs S.A.	1st bulb	B
Eleftheroudakis Publishing Co	Most important publishing	A
General Co 'Vio' S.A.	Large car bodies	A

*1949 classification of industries by the Confederation of Greek industrialists in order of importance: A,B,C,D.

**Not mentioned because it was established in 1932. From the beginning of its foundation it was a very large firm.

Source: Ministry of National Economy, Department of Trade and Industry, Greek Industry, Athens 1925, Confederation of Greek Industrialists, Directory of Greek Industry, Athens 1949.

In the last analysis, the Trust may have failed to restructure Greek industry but it did improve the liquidity of the National Bank. In an ironic twist, the loans furnished were not used for new capital investments although back in 1928 the National Bank of Greece had stated that foreign funds were to be tapped for the rationalization of Greek industry. The truth was that most borrowers were heavily indebted to the N.B.G. and used the larger part of funds furnished by the Trust to liquidate their short term, high interest debts with the bank.[73] (See Table 4)

Table 4

Loans that Firms Received from the Hellenic General Trust and Amounts Received after Deducting Their Debt to the National Bank

Company	A Loan granted by the Hell General Trust (in £)	B Amount which Co received after deducting debt towards NBG (in £)	B as a % of A
Chemical Industry S.A.	15,000	6,196	41.3
Greek Co of Electrical Bulbs S.A.	4,000	4,000	100.0
Cement General Co 'Erakles' S.A.	60,000	37,000	61.6
E. Poulopoulos and Son, Hatmakers S.A.	15,000	11,775*	78.5
A.P. Cambas (Wine)	15,000	4,089	27.2
Greek Potteries 'Kyklops' S.A.	12,000	6,997	58.3
Distilleries S.A.	60,000	6,200	10.3
A. Aliprantis and Sons (Wine)	3,000	3,000	100.0
N. Karastamatis	2,000	1,472	73.0
M.K. Stamatopoulos and Sons (agric. tools)	7,000	7,000	100.0
M.K. Stamatopoulos and Sons (agric. tools)	4,000	2,100	52.5
G. Tsitsis and Sons (agric. tools)	10,000	10,000	100.0
G. Tsitsis and Sons (agric. tools)	12,000	6,000	50.0
Spinning Co. V.I. Tourpalis S.A.	5,000	5,000	100.0
Building and Wood Co 'Elloul' S.A.	8,000	2,543*	31.7
Glavanis Industry S.A. (agric. tools)	12,000	6,759	56.3
K.P. Tournivoukas and Bros (textile)	2,000	2,000	100.0
Cement Co 'Titan' S.A.	60,000	–	–
Eleftheroudakis Publishing Co S.A.	5,500	–	–
Greek metallurgy S.A.	6,000	6,000	100.0
Michaelidis and Konstantinis (pasta)	3,000	3,000	100.0
General Co 'Vio' S.A. (car bodies)	50,000	20,000	40.0
Georgiades and Sekeris (wood processing)	3,500	3,500	100.0
Electricity Co of Volos S.A.	25,000	5,000	20.0
Piraiki Co S.A. (spinning)	20,000	–	–
French Mining Co of Lavrium S.A.	25,000	15,000	60.0
Total	447,000	182,631	40.8

*In these cases the debt was owed to the National Bank of Greece and the National Mortgage Bank of Greece.

Source: NBG/H.A, XXII, Banks IE' Banking Institutions, file 38; General Overview of Industrial loans, July 1936 (in Greek).

To recapitulate, poststabilization capital inflow in Greek industry was less impressive than what had been expected and in comparison to direct foreign investment in other countries. The late date at which Greece stabilized and the World Crisis were not the sole factors responsible for this disappointing performance. The story of the Hellenic Trust shows that the inflow of foreign capital was thwarted before the onset of the world depression largely because Hambros and the N.B.G. were not capable of establishing a fruitful working relationship regarding the operation, financing and rationalization of business concerns. It became apparent at an early date that the two parties had a different economic philosophy. In a nutshell, this case study reveals one more facet of the clash between a Southern Balkan country and the West. In part, the problem was created by the perennial suspicions of Greece towards the West. The West came to symbolize greed and modernization. Whereas, Greece wanted to acquire the latter without succumbing to the former. It failed to do so largely because fear of western greed stood as a mental block, impeding necessary changes in business and official economic culture. In the last analysis, stabilization was not sufficient in itself to integrate Greece into the world capital market.

Before closing it is pertinent to stress that this study proves that before WW II the presence of foreign interests in Greek industry was marginal. Foreign direct investment -unlike the case in other predominantly agricultural countries of Europe such as for example Poland, Yugoslavia and Roumania- was almost non existent.[74] Protectionism in industry and the cheap pool of labour brought about by the refugee influx did not act as motives for investment by foreign firms.[75] Thus, the argument that foreign economic penetration distorted Greek industrialization does not hold for the interwar period.[76] The weaknesses of this sector were the result of domestic anomalies. Indeed, if anything it can be maintained that this sector was starved of foreign long-term credit and expertise: it remained for too long isolated from the international capital market.

References

1. The difference between the attitude adopted towards stabilization and the banking reform is noted in: Kostis, (1986), *op.cit.*, p.44.

2. The quotation is from the otherwise meticulous study of Psalidopoulos, *op.cit.*, p.333.

3. The Venizelos quotation is from B.M./V.A., File 274, Venizelos to Kafandaris, April 7 1927. The second quotation is from FO371/12164/C8137/117/19, minutes of October 28 1927 signed by Sargent.

4. For a succinct description of the impact of the world crisis on the Greek economy see: Kostis, (1986), *op.cit.*, pp.19-42.

5. Kostis (1986), *op.cit.*, pp.74-98. Also, Venezis, *op.cit.*, pp.62-104.

6. Sir Frederick Leith Ross of the British Treasury urged the government not to make a public controversy out of the antithesis of the Bank of Greece with the I.F.C. as supposedly this would damage Greek credit. Diomedes apparently had made certain derogatory remarks at annual meeting of shareholders of N.B.G. Source: FO371/15229/C8965 Memo of Sir Leith Ross, March 12 1931.

7. For this commitment see: Article v of the Geneva Protocol of September 1927. State expenditures amounted to 9,446,396,553 drachmae during the fiscal year 1928-1929 and 18,354,678,198 drachmae during 1929-1930. Economic Survey of Greece for 1938, Part II, p.170.

8. On April 2 and November 20 1929 legislation was passed which stipulated that the state would employ up to 1,021,300 drachmae (the total amount of the surpluses in its hands at the moment being 1,153,000 drachmae) towards the large infrastructure schemes under construction or other absolutely necessary projects. But once again good intentions transpired into the realization of less noble causes. Not one drachma was utilized on public works. Out of the total of 1,021,300 drs: 107,500,000 went for the payment of state debts; 112,000,000 drs. for the construction of public buildings; 270,000,000 drs. for the purpose of covering expenditure of the army and navy; 311,000,000 drs.for the building of schools, hospitals and refugee houses; 160,000,000 drs. towards the development of agriculture. Indicative of the spirit of waste that prevailed was that 2,300,000 drachmae were donated in order to assist the creation of a university campus in Paris! Source: B.G./T.A., Document 49/1: Memorandum prepared by Finlayson on October 2 1930.

9. The Statutes of the Bank -Article 4- stipulated that the Bank of Greece would exercise control over currency and credit in Greece.

10. An example of intervention in which the Bank obeyed was the following: In September 1928 the Bank of Greece was given an order to buy a certain amount of freshly issued 6% exchangeable bonds on the open market.

11. Messager d'Athenes, September 26 1930. Also see: B.G/T.A., Document 49/1: Memorandum prepared by Finlayson on October 2 1930.

12. For all above see: FO371/12918/C78431 Memorandum prepared by Finlayson, titled: "Relations Between the State and the Central Bank of Issue" October 10 1928.

13. FO371/12918/C78429, Mackillop to Sargent, October 12 1928.

14. Venizelos' failure to grasp the importance of the autonomy of the Bank of Greece from the N.B.G. is also portrayed by the fact that in his effort to convince the N.B.G. to relinquish half of the revalorisation profits that had been granted to it by the coalition he promised the N.B.G. that it would be able to buy all of the shares of the Bank of Greece if it so wished. This of course angered the League of Nations officials and as a result Venizelos was forced to retract. For this affair and the settlement reached in June 1929 see: B.G./T.A., Document 48/3: Notes written by Finlayson on the report presented to the Financial Committee on May 11 1931. Also, FO371/12918/C78401, Finlayson to Niemeyer, August 3 1928. Also, B.G./T.A., Document 113/12: Tsouderos to Niemeyer, July 6 1928. Also, Venezis, *op.cit.* pp.57-61. Also, FO371/12918/C78392, Niemeyer to Waley, July 3 1928. Also C5269/15/19 Minutes of July 5 1928 and, Niemeyer to Waley, July 3 1928.

15. B.G./T.A., Document 65/9: Niemeyer to Tsouderos, December 16 1931 and Document 129/9: Loveday to Finlayson, April 10 1933.

16. For Geneva Protocol stipulations see: articles iv, v, and article 3 of annex vi. Exact figures for the size of the deposits are not available. For the fact that the interest rate charged was lower by 1% see Kostis (1986), *op.cit.*, p.51.

17. See Special agreement concluded between the N.B.G. and the Government of February 23 1928, article 6. For Diomedes' assent see Venezis, *op.cit.*, p.65; and Kostis, *op.cit.*, p.80.

18. FO371/12918/C78341, Memorandum prepared by Finlayson, titled: "Relations between the State and the Central Bank of Issue", October 10 1928.

19. For Niemeyer's fears and interest in the affair: Venezis, *op.cit.*, p.64, B.G./T.A., Document 112/1, Tsouderos(?) to Varvaresos, May 19 1928.

20. For the negotiations on this issue and the final solution reached see: Venezis, *op.cit.*, pp.62-66. Also, B.G./T.A., Document 46/49: Memo written by Finlayson on the 'Public Caisses', June 26 1929. Also, B.M./V.A.: File 69, memo of Finlayson of November 5 1929. For the fact that there were problems even after the solution was reached and until a representative was appointed by the Bank of Greece to sit on the Board of Directors of the Caisses see: B.G./T.A., Document 48/3: Notes written by Finlayson on the report submitted to the Financial Committee on May 11 1931.

21. This figure is for 1931. See: B.G./T.A., Document 48/1: Minutes of the 49th Session of the League Financial Committee of May 11 1931. The picture had been even more dismal right after the creation of the central bank. For, at the time of the foundation of the Bank of Greece 50% of its assets consisted of government debts. Notably, at the end of 1928 the portfolio of the Bank of Greece had been 10,000,000 drachmae whereas the total for all of the commercial banks had been 5,000,000. Sources: B.G./T.A. Document 129/9: Loveday to Finlayson, April 10 1933. Also, Kostis (1986), *op.cit.*, p.46.

22. See Article 4, Statutes of the Bank of Greece, Annex IV of the Geneva Protocol.

23. For the proposition that the N.B.G. amalgamate with the central bank see: *Πρωΐα*, October 2 1931. Also, *Ελεύθερον Βήμα*, April 5 1932. Also, Venezis, *op.cit.*, pp.95-104. For Niemeyer's reaction to this proposition see: B.G./T.A., Document: 65/16, Niemeyer to Tsouderos, November 16 1931; also, 65/9: Niemeyer to Diomedes, December 31 1931.

24. Up to then only the N.B.G. had been obliged to maintain a minimum balance with the Bank of Greece equal to 7% of its aggregate sight deposits. Geneva Protocol of 1927, Article 7 of Annex III. For the passing of this bill in early 1931 see: B.G./T.A., Document 46/10, president of the Financial Committee to the governor of the Bank of Greece, January 22 1931; Document 46/111, Tsouderos to Venizelos, January 25 1931; Document 65/18 Tsouderos(?) to Finlayson, March 16 1931.

25. The outstanding commercial credits were 181,943,000 drs. on December 31 1930 and 858,972,000 drs. on December 31 1932. For details on the unorthodox behaviour of the Bank of Greece see Kostis, (1986), *op.cit.*, pp.91-93. For the fact that Greece conformed to the general experience in that the operation of the interwar gold standard had an element of discretion and was not purely based on rules, see: Eichengreen, *op.cit.*, p.7.

26. B.G./T.A. Document 129/7: Tsouderos to Siepmann, April 25 1933.

27. The state was starved of the surpluses that belonged to it after the I.F.C. deducted from the assigned revenues those sums that belonged to it. For example during 1930 the Treasury did not receive one drachma from the I.F.C. during January, February, March, August and September. FO371/15229/C10389, Finlayson to Leith Ross, February 17 1931.

28. B.G./T.A., Document 86/17: Tsouderos to Siepmann, February 28 1931.

29. As a Treasury official put it: "It was really impossible to defend a situation in which the International Commission was holding up revenues amounting to 300 or even 500 million drachmae, and the Greek government were forced to borrow from the [Central Bank] to meet their outgoings" FO371/15529/C10394, Memo of Sir Leith Ross, March 12 1931.

30. B.G./T.A., Document 86/39: Memorandum on the assigned revenues, signed by Finlayson, April 30 1930.

31. The I.F.C. referred in this instance to articles 24 and 31 of the Law of Control. For the fact that by early 1932 even the British Treasury (Leith Ross) thought that the Commission should in view of the narrow financial straights of the government no longer stand upon "meticulous points of formal law" as such a policy would be bound to raise an outcry against the Commission, see FO371/15962, despatch number 214 Finlayson to Leith Ross, May 13 1932.

32. FO371/15229/C2634, April 2 1931, Minutes.

33. FO371/15229 C3810, Ramsey to Sargent, May 25 1931, and Minutes of June 3 1931.

34. Figure for margin of safety: B.G./T.A. Document 86/19: Minister to the I.F.C.- plan of letter, 1933.

35. The devisen reserves abroad stood as follows: End of 1927: £1,301,000; end of 1928: £1,656,000; end of 1930: £1,211,000. Source: B.G./T.A., Document 46/19: Tsouderos to Niemeyer, February 10 1931.

36. Finlayson wanted the I.F.C. to dismantle its devisen reserve abroad and to transfer it to the Bank of Greece. B.G./T.A. Document 15/16: Memo prepared by Finlayson, August 21 1930.

37. For example between May 1928 and May 1929, the I.F.C. asked for £4,152,000 in devisen although its annual requirements in order to meet the debt was in the area of £3,107,000. Source: B.G./T.A., Document 14/20: Finlayson to Roussin, May 13 1929.

38. B.G./T.A., Document 86/42, Memo randum on the "Devisen" Investment of the I.F.C. written by Finlayson, May 31 1930.

39. FO371/15230 C7468 Harvey to Sargent, September 28 1931. For the pressure levied on the Commission to accept the Greek demand by the Foreign Office see: FO371/15230 C7549. For the fact that in July 1930 the Greek government had suggested without success that part of the balances of the I.F.C. be placed on time deposit so as to improve the reserve position of the Bank of Greece. FO371/14387/C5709.

40. For the fact that Roussin was an official Treasury appointment see: FO371/15299, Waley to O'Malley, March 2 1931.

41. Economic Yearbook of Greece for 1932, p.558.

42. For the role of Finlayson in this affair and the attack against him by the Treasury and the Foreign Office see: FO371/12919 C9013, FO371/12918/C7927. FO371/12918, Minutes Nov. 3 1928.

43. FO371/15229 C2582 Ramsey to Sargent, April 18 1931.

44. FO371/22354, April 8 1934.

45. The foreign exchange reserves of the Bank of Greece held in pound sterlings were £ 1,500,000 on the eve of September 20, 1931. For the argument that until Britain went off gold the drachma was faring well inspite the world crisis, see: Daphnes, *op.cit.*, Vol.B, p.103.

46. The reserve according to the statutes of the central bank could be comprised only of gold or gold based currencies. For the statutory limit see: Bank of Greece, *op.cit.*, p.99.

47. FO371/15230 C7274, Harvey to Chamberlain, September 23 1931.

48. FO371/15230 C8554, Ramsey to Simon, November 10 1931.

49. For the drainage of the reserves of the bank as a result of the speculation in foreign exchange see: FO371/15230 C7450, Harvey to Chamberlain, September 28 1931. According to Daphnes, *op.cit.*, Vol. B, p.106, the total foreign exchange reserve of the Bank of Greece on September 23 1931 stood at £85,000,000.

50. For the fact that government thought that it would eventually return to the sterling basis see: FO371/15230/ Finlayson to Siepmann, October 23 1931. For the fact that after Britain went off gold Greek securities dropped less than those of other backward countries such as Bulgaria and Roumania see: M.F.A./H.A., A/14 Economic matters of Greece, 1931, Kaklamanos to Michalakopoulos, October 3 1931. For the law passed on September 28 1931 which centralized the dealings in foreign exchange at the bank of Greece, the drachmification of Greece's private debts abroad on October 8 1931 and the exchange controls passed on February 1 1932 and the other measures taken for the control of the exchange see: Daphnes, *op.cit.*, Vol. B, pp. 105-107, and A. Mihas, Τα Μέτρα Ελέγχου Συναλλάγματος εις τα Διάφορα Κράτη, (Exchange Controls in Various Nations), (Athens, 1932).

51. Annual service of foreign debt in 1921 was £3,500,000. In 1931 it was £9,000,000. For the first figure see Daphnes p.123, for the second, Daphnes *op.cit.*, p.113. The foreign exchange reserve on April 17 1932 was only £2,300,000 and the maturing service payments of May 1 1932 amounted to £500,000 (i.e. $1,650,000). For amount of reserve on April 17 see Daphnes, *op.cit.*, Vol. B, p.127.

52. Venizelos in October 1931 had first raised the possibility of a moratorium on the amortization of the foreign debt. At the time he had suggested that Finlayson discuss this issue with the Treasury and the Bank of England. Source: FO371/15230/C11452, Finlayson to Siepmann, October 23 1931.

53. For the fact that the F.O. as well as the League of Nations did not want to take a stance on the issue of the default see: FO371/15960/C13987, Report of Roussin for 1932.

54. Daphnes, *op.cit.*, Vol. B, pp.130-131

55. For Niemeyer's position see: B.G./T.A., Document 77/1: Memo prepared by Finlayson on April 27 1932. Also, FO371/15230/C11452, Finlayson to Siepmann, October 23 1931.

56. Daphnes, *op.cit.*, Vol. B, p.105.

57. *G.P.D.*, *op.cit.*, (Athens, 1933), Session XH, April 28 1932, pp.1042-1067. Also, Daphnes, *op.cit.*, Vol. B, pp.123-124.

58. For details see: N.Mouzelis, Νεοελληνική Κοινωνία Οψεις Υπανάπτυξης (Modern Greece Facets of Underdevelopment,) (Athens,1978), pp.291-293. Also, N.B.G./H.A., Banks, The National Bank of Greece, File 67: Arliotti to Drossopoulos, December 19 1939. Also, H.M.S.O., Department of Overseas Trade (R.F.H. Duke), Report on the Industrial and Economic Situation in Greece for the years 1923 and 1924, (London, 1925), p.28. Also, Encyclopedia of Economics and Accounting, (Athens, 1958), Vol.4, p.568. Also for investments made by foreign capital in Greek enterprises during the 1920's see: Dritsa, *op.cit.*, pp.422-426.

59. The one attempt that the N.B.G. had been made prior to stabilization to raise a long-term bond loan in the City for the purpose of rationalizing Greek industry had failed. See: *Οικονομικός Ταχυδρόμος*, December 17 1927.

60. For the overabundance of marginal firms in Greek industry and for the problem of capital shortage in this sector, due to the fiscal policy of government, the overflowing of the capital market with government securities which had preferential terms and the inability of the banking system to supply long-term credit owing to the fact that most bank deposits were short-term see Table 1 and: G.Koutsoumaris,The Morphology of Greek Industry, (Athens, 1963). Also, B.G/T.A., Document 49/1: Memo written by Finlayson, October 2 1930. Also, Freris, *op.cit.*, pp.36-43. Also, G.Haritakis, Η Ελληνική Βιομηχανία, (Greek Industry), (Athens, 1927), p.73.

61. A notable exception was the £40,000 loan that the Karellas Spinning Firm raised in the City in 1930. Source: M.Dritsa, *op.cit.*, p.378. Another exception was the £600,000 loan raised in the City by the 'Fertilizer Company' in 1930. Source: E.K.Stassinopoulos, *op.cit.*, p.135. For the Italian experience see: D. Forsythe "The Rise and Fall of German-Inspired Mixed Banking in Italy, 1894-1936", in H.James, H.Lindgren, A.Teichova, The Role of Banks in the Interwar Economy, (Cambridge, 1991).

62. A good indication of the heavy the involvement of the N.B.G. in Greek industry is that on the eve of WWII, the debt of Greek industry to the N.B.G. was about £9,308,251. The total debt of industry to the commercial banks and various creditors has been estimated at £18,000,000. Source: G.Anastassopoulos, *op. cit.*, p.1581.

63. The institution of investment trusts began to flourish in Britain from the late 19th century. In 1928, 152 such trusts were established and on average their capital was about £1,300,000. Source: L.R. Robinson, Investment Trust Organization and Management, (New York, 1929), pp.27-29.

64. For the tight links established between Greek industry and the N.B.G. and the role of the Hellenic Trust see: Dritsa, *op.cit.*, pp.244-286, 340-438. For a detailed breakdown of the activities of the Trust see also: I.Minoglou, "Foreign capital and Greek industry during the interwar period - the Hellenic Trust", 50th meeting of the researchers of the Historical Archive of the National Bank of Greece, November 22 1984, (mimeographed). Also, I.Minoglou, "Bankers and economic development: the activities of the Anglo-Hellenic banking joint ventures during the interwar years", 94th meeting of the researchers of the Historical Archive of the National Bank of Greece, January 19 1989, (mimeographed).

65. That Hambros did not want to offend its 'Greek friends' as it was busy negotiating the financing of large public work schemes and municipal projects see: FO371/ File 117/C? /19, Confidential memorandum: Commercial Department, British Legation, Athens, December 5 1927.

66. The Greek financiers were the N.B.G. and the Ionian Bank. We do not know what amount each contributed separately. N.B.G./H.A., III, Minutes of Meetings: Minutes of the Meetings of the General Board of Directors, Meeting of July 19, 1929.

67. For the fact that the N.B.G. saw as the sole purpose of the trust the provision of cheap long-term credit to Greek industry see: *Οικονομικός Ταχυδρόμος*, January 1 1929 and December 12 1929. Hambros infact in the beginning did not even want Greece to be mentioned as a special area of interest in the memorandum and articles of association. See: B.G./T.A., Document 22/64, titled: 'Memorandum concerning the Greek Trust Co.', 1927. Also let it be noted that one year after it was established, under the insistence of Hambros the name of the Trust was changed from Hellenic Corporation to Hellenic and General Trust. N.B.G./H.A., XXII Banks, Banking Institutions, File 38: document titled: 'Company Meetings, Hellenic Corporation Ltd., April 22 1929.

68. The crisis was probably an important factor why the Trust in November 1930 offered £600,000 debenture stock in London, but managed to raise only £214,000. For the fact tha Hambros considered insufficient the information received from Athens, see: N.B.G./H.A., XXII, Banks, The National Bank and Foreign Banks, File 68: C.Hambro to Drossopoulos, August 10 1928.

69. A notable example was the Greek Wool Manufacturing Co. which you refused to sell part of each shares to the Hellenic Trust when this was suggested by Hambros. See: N.B.G./H.A., XXII, Banks, The National Bank and Foreign Banks, File 68: C.Hambro to Drossopoulos, August 31 1928.

70. N.B.G./H.A., XXII, Banks, The National Bank and Foreign Banks, File 68: D' Erlanger to Drossopoulos, March 9 1930.

71. We know how much the Trust invested outside Greece, but unfortunately we do not know in which countries it was invested. By 1932, the proportion of Greek investments to the issued share and loan capital of the Trust was 53.5% and by 1939 this proportion had fallen to 46.3% Source: N.B.G./H.A., XXII, Banking Institutions, File 38: Report on the Hellenic and General Trust Ltd., Athens, December 1939.

72. N.B.G./H.A., Industrial credit, File Cements 1924-51: Report on the Cement Industry, 1940.

73. The loans granted by the Trust had an interest rate of 8-10%, whereas the interest rate charged by the N.B.G. for its short-term credits was in the area of 14-16%. For the interest rates charged by the Trust see in the text, Table 7.

74. A.Teichova, An Economic Background to Munich, International Business and Checkoslovakia 1918-1938, (Cambridge, 1974), pp.16-24.

75. For the variety in motives regarding foreign direct investments see: D.K.Fieldhouse, 'The Multinational: A Critique of a Concept' in A.Teichova et al (eds), (1989), *op. cit.*, pp.12,15-16,25.

76. For the argument that foreign capital dominated Greek industry after WWII see: D.Benas, Η Εισβολή του Ξένου Κεφαλαίου στην Ελλάδα, (The Invasion of Foreign Capital into Greece), (Athens, 1976).

CONCLUSION

The Stabilization Plan Seen From a Comparative Perspective

The two central preoccupations of Greece's formal supervisors during the twenties was the settlement of the refugees and stabilization. As noted in the introduction the contribution of the League refugee scheme to the economy of Greece has been well documented in the literature. Hence, much of Book I has revolved around how the mechanisms of official supervision as established over Greek finances through the League of Nations and the I.F.C. operated. The reasons for the delay in stabilization and the poor performance of the gold exchange standard system have been portrayed in detail. The institutional resistance to the reforms have been underscored. Moreover, the reasons why stabilization failed to trigger foreign financial flows in Greek industry have been delineated. As already indicated Book II will analyse the reasons why stabilization failed to deliver the expected inflow of foreign capital for public works. It must be stressed again that the motives for stabilization differed. The supervisors viewed stabilization as a means to reinforce the gold exchange standard system built by the Bank of England. The Greek authorities viewed stabilization as the means generating a large inflow of foreign capital. Thus, at the end of the day,and for different reasons, neither the state nor the Bank of England were satisfied with the experiment in free convertibility. Finally, Book I has placed the League stabilization experiment in Greece in a wider context, by resorting to spatial and temporal comparisons.

1. The Spatial Comparison Greek Stabilization in the European Context

1.1. Greece and the General European Experience of Financial Recovery During the Twenties

Greece was not unique. Other European countries adopted the gold exchange standard system during the twenties. Overall, the Greek case appears to conform to the general experience of European financial recovery. In particular, two observations seem appropriate. First, that the gold exchange standard was "neither a purely rules-based nor a purely discretionary system". Second, that currency stabilization was the effect of the relative stabilization which in the meantime had taken place in the economic and political sphere.[1] However, Greece differed in that she stabilized at a late date. Studies that have focused on short term vicissitudes in Europe have split the twenties into two periods. The first going from the end of the war up to 1923 during which political tensions and monetary instability cum inflation prevailed. The second (1923-1929) "characterized by much more stable conditions in the political as well as in the monetary field".[2] In Greece the 'twenties' began in 1922 and the first period ended in 1927. A fundamental difference of Greece regarding the second (i.e. poststabilization) period is that the inflow of foreign capital did not show any marked increase. It is on the basis of this observation that we have reached the conclusion that Greece during the twenties experienced missed opportunities. Nevertheless, Greece seems to conform with the thesis propounded in the literature that stabilization as a rule did not stimulate economic activity.[3]

Finally, in conformity with most European countries Greece during the twenties became an even more open economy. Trade experienced rapid growth largely as a result of the rise in the import needs of the country. Foreign capital flows also reached high levels. However, as we have seen, they largely consisted of long-term government loans. Short-run capital movements and foreign direct investments in Greece were on average lower than what was the case west of Greece.[4]

1.2. The Role of the League of Nations in European Reconstruction - The Stabilization Programmes Revisited

League of Nations involvement in Greece should be studied as part of its general scheme to block the reemergence of bellicose tendencies in Southeastern Europe for strategic reasons and to rebuild the international monetary and trade system along the prewar lines.[5] With regard to this second function the League implemented a series of reconstruction stabilization schemes in Central Europe and the Balkan.[6] Stabilization was short-lived. The side effects of the deflation associated with the stabilization schemes led to severe stress. All of the countries involved experienced a financial collapse with the unfolding of the world economic crisis of 1931. It has been argued that these reconstruction operations contributed to the world crisis.[7] Yet, it must be acknowledged that the administrative and institutional reforms entailed in the stabilization schemes had a long lasting positive influence for the countries concerned. For example, the principle of independent central banking was universally applied. In those countries where central banks already existed, they were restructured and made more autonomous from government interference. A good example is that of the Reichsbank in Germany. Whereas Hungary, Austria, and Greece did not have a central bank, they set one up.[8]

As Greece found, the Bank of England was the dominant influence behind the International Financial Committee which had been set up after the Brussels Conference of 1922 and was the League tool responsible for economic policy formulation.[9] For example, the Financial Committee granted advances on the League reconstruction loans and prepared the drafts of the charters and constitutions of the new or reformed central banks set up. Not surprisingly, these drafts were instilled with the principles of independent central banking as visualized by the Bank of England. These precepts entailed that there should be no government interference in the Bank's affairs, limited lending to government, the board of directors was to be elected by the shareholders. The involvement of the Bank of England was so extensive that some countries such as France viewed the League as "an engine of British financial hegemony".[10] The ties between the League and the Bank of England became even closer in 1927, when Sir Otto Niemeyer who was the dominating figure on the Financial Committee moved from the Treasury to Threadneedle street. With regard to the degree and nature of foreign economic control entailed in the League stabilization schemes, it must be remarked that all of the countries involved -and not only Greece- were compelled as a result of the assistance received to accept some form of supervision. In the cases of Austria and Hungary a foreign Commissioner General, with a wide spectrum of prerogatives, was appointed. In Germany half of the governing board of the reformed Reichsbank was composed by foreign members approved by the League.[11] Bulgaria and Roumania were obliged to appoint a foreign technical advisor -chosen by the League- at their Central Banks, and to submit to the Financial Committee every three months a report on the economic situation of the country.

Opposition to foreign control was a usual phenomenon in these countries. It stemmed from two sources: from those who as a matter of principle resented foreign economic dependence and from vested economic interests whose position was threatened as a result of the new measures and reforms. Indeed, in at least one case opposition to foreign control was responsible for the fact that the League of Nations did not implement a stabilization scheme. Portugal in 1928 applied for a loan to restore its finances. However, the negotiations broke down because it refused to accept the control which was entailed in the reconstruction plan put forward by the League.[12] In short, Greek reconstruction was less comprehensive than the Austrian, Hungarian and German schemes.[13] Apparently it was closer to the Bulgarian and Estonian plans.[14]

Finally, we would like to underline the remarkable concurrence of the Greek case to the League stabilization plans regarding the intentions of the League of Nations and the local reaction towards the reforms and degree of control it imposed.[15] It is obvious that Greece was not unique and that it shared a common European experience. Its peculiarities lay in the specific details.

2. The Temporal Comparison: The 1898 Law of Control and the League of Nations Stabilization Scheme of 1928

It has been argued that the control introduced with the League stabilization plan was similar to the supervision imposed on Greece in 1898 by the I.F.C.[16] Indeed, certain basic fundamental similarities existed. Both forms of control were established after Greece was defeated at war and an enquiry into the finances of the state was carried out by foreign experts. In addition, the I.F.C. and the League entered Greece on the occasion of the issue of a loan. In each case, the loan raised was placed at the disposal of the new supervisor. What is more, both institutions formally stated that their main concern was to restore Greek finances. Also, both favoured a system of free convertibility. Moreover, it cannot be overlooked that the I.F.C and the League were basically international only in name. Effectively, they were under British influence. (Although, the I.F.C. at the time it was set up was predominantly under German influence).[17] Finally, it must be added that both the I.F.C. and the League were conveniently used by the British and the French governments as a means to extract better terms from the Greek government regarding economic issues unrelated with the main goals of these two institutions of control. However, the similarities end here. The drawing of a parallel between the two forms of control in an unequivocal ma... masks the subtle yet important differences between the two cases with respect to their goals and their functions.

For each of these two institutions there existed a twin set of goals with regard to their Greek involvement. On the one hand the 'official' 'presumed' or 'declared' goals and on the other the hidden agenda. Divergences between the two tools of control were manifest on both the official and the "hidden" level. Regarding the I.F.C., officially its main goal was to restore Greek finances and protect the bondholders by ensuring the smooth and full repayment of the Greek government foreign debt. However, a careful reading of the Law of Control of 1898 shows that in reality the Commission was expecting to do much more. It sought through the appreciation of the drachma to secure for the bondholders extra bonuses in addition to their fixed income.[18] As for the Financial Committee of the League of Nations, it tackled Greek affairs from a wider perspective than the Commission. Officially, it declared that it wanted to integrate Greece in the interwar world financial system through political and financial stabilization. Nevertheless, as was the case with the I.F.C.: the League automatically assumed that what was good for its narrow interests was good for Greece!! The 'hidden' goal of the Financial Committee of the League being that Greece should come under the direct orbit of the Bank of England.

Given the differences in their goals it is not surprising that the specific functions of these two institutions were far from identical. As noted in the text, the League stabilization plan provided for a strict supervision over fiscal policy in general. Whereas the I.F.C. was placed solely in charge of the specific task of collecting and managing a part -albeit large- of the government revenues that went towards the repayment of the foreign debt.[19] The involvement of the I.F.C. in fiscal affairs did not displease the League. On the contrary, the League enhanced the position of the Commission regarding debt management, by requiring that it supervise both League loans.

As far as monetary policy was concerned, it is notable that whereas the control established by the I.F.C. had provided for a gradual appreciation of the drachma, the League implemented on the spot a full-fledged stabilization plan. In practical terms in 1927 the League of Nations with the assent of the Bank of England effectively 'superceded' the I.F.C. in the realm of monetary policy.[20] The I.F.C. resented this intrusion. For this reason and due to its narrow financial interests there was ample of conflict with the League. Let it be noted at this point that after the default of 1932 the state emasculated the I.F.C. by imposing restrictions regarding the collection and administration of the revenues. It came as no surprise when the I.F.C. was 'discretely' extinguished during WWII. As for the League of Nations, the umbilical cord was cut in 1937.[21] From 1932 onwards the League's major preoccupation in Greece was to fight off the successive proposals made by the commercial banks and the ruling Populist government to either fuse the Bank of Greece with the National Bank, or to abolish the branches of the Bank of Greece and restrict its operations. But, this subject belongs outside the thesis.[22]

References

1. For quotation see: Eichengreen, *op.cit.*, p.7. Also see: C.Zacchia, "International Trade and Capital Movements 1920-1970" in C. Cippolla (ed.) The Fontana Economic History of Europe. The Twentieth Century, Part Two, (Glasgow, 1981), p.515.

2. C.Zacchia, *op.cit.*, p.510

3. Berend and Ranki, *op.cit passim.*

4. R.I.I.A., (1936), *op.cit.*, p.44.

5. Ashworth, *op.cit.*, p.156.

6. The first to propose a program of international loans for reconstruction was J.M.Keynes in 1921. Berend and Ranki, *op.cit.*, p.213. Also let it be noted that the only Central European country to initiate a full fledged stabilization program with the assistance of foreign capital but unconnected with the League, was Poland. In this case the loan capital originated from the U.S.A. Source: Berend and Ranki, *op.cit.*, p.219.

7. For the thesis expounded that the stabilization schemes contributed to the world economic crisis see: P. Einzig, World Finance Since 1914, (London, 1935), pp.99-125. Also for the argument the argument that the central aim of the League stabilization program was for financial and foreign exchange stability rather than for assisting economic development, see: Zacchia, *op.cit.*, p.581. Also, Berend and Ranki, *op.cit*, pp.220-222

8. The League during the twenties was also busy in applying the central banking principle in South Africa and Latin America. Albania also asked it to assist it to set up a central bank with foreign capital but this effort at cooperation broke down. See: Dertilis, *op.cit.*, p.170. Also, R.I.I.A., *op.cit.*, p.44. Also, M.Fanshawe, Reconstruction-Five Years of Work by the League of Nations, (London, 1925), p.127

9. Fanshawe *ibid.*

10. For the role of the Bank of England in the stabilization schemes see Sayers, *op.cit*, *passim*. Also, Einzig, *op.cit.*, p.117. For the reaction of the French also see: Einzig, Banks Statesmen and Economists. Also, in the work of J. Bouvier, R.Girault, J. Tobie, L'Imperialisme a la Française 1914-1960, (Paris, 1986), p.204 it is mentioned that E. Moreau resented the fact that the Financial Commission of the League was an instrument of the Bank of England, and that England had established itself in Austria, Hungary, Belgium, Norway, Italy, Greece,

11. Austria, in addition to having a Commissioner was also obliged to appoint a technical advisor at its Central Bank. For the forms of foreign control and the ousting of the Austrian Commissioner in 1926 see Sayers, *op.cit.*, pp.173,182.

12. Journal Officiel de Societe de Nations, April 1928, p.248.

13. Fanshawe, *op.cit.*, p.133.

14. For the sweeping bank reform that was implemented in Estonia, and which had quite a few similarities with the Greek case see: League of Nations, C.227.M.89.1927.II [F.396], Geneva, May 25, 1927. For a description of the Bulgarian scheme, see: W. Wynne, *op. cit.*, Vol.II, pp.556-558.

15. The general practice for the reconstruction loans raised was for the government to forfeit revenues from custom duties, the tobacco and salt monopolies. As has been explained in the text, this was also the case in Greece.

16. K.Kostis and V.Tsokopoulos, Οι Τράπεζες στην Ελλάδα 1898-1928 (The Banks in Greece 1898-1928), (Athens, 1988) p.62.

17. B.E./C.B.P. 328: Tsouderos to Eden, August 10 1942.

18. FO371/15963/C71051 "The Greek Public Debt and the International Financial Commission", a Memorandum prepared by Roussin, July 4 1932.

19. The yield of the government revenues placed under the control of the I.F.C. was in 1899 -the first completed year of the operation of the I.F.C.- about 48,000,000 drs. This represented 47% of the total ordinary government revenues for this specific year. FO371 10765 C1851/358/19, Memorandum respecting the International Commission at Athens, January 25 1923. Also see, Economic Yearbook of Greece for 1929, p.275.

20. Roussin in 1932 in referring to the I.F.C. stated that "Insofar as its functions of control of currency and short-term borrowings are concerned the International Financial Commission has been practically superceded since 1928 by the League of Nations". Source: FO371/ 15963 C71051 "The Greek Public Debt and the International Financial Commission", a memorandum prepared by Roussin, July 4 1932.

21. For the departure of the League we have taken the date when the financial advisor of the Bank of Greece was removed see: B.G./T.A., Document 46/13: Finlayson's farewell speech on May 15 1937. Regarding the abolition of the I.F.C., the Greek government made an official request for the abolition of the I.F.C. in January 1941. Source: B.E./C.B.P. 328 (no volume number specified): document titled: 'Abolition of the I.F.C.', March 3 1942. Also, same archive and reference: document titled: 'Draft handed to Mr. Hoar by Mr. Mantzavinos 1st October 1942 - Abolition of the I.F.C.'.

22. FO371/19516/23, Dispatch written by Roussin, January 23 1935. Also, B.G./T.A. Document 63/8: Finlayson to Siepmann, March 16 1933; Document 129/10: Memorandum written by Tsouderos, June 28 1935.

BOOK II

FINANCING PUBLIC WORKS WITH FOREIGN CAPITAL: Costs, Conflicts and Sovereignty

BOOK II

FINANCING PUBLIC WORKS WITH FOREIGN CAPITAL: Costs, Conflicts and Sovereignty

INTRODUCTION

Foreign capital inflow outside the framework of supervision financed the expansion of the country's physical infrastructure undertaken by foreign contractors.*[1] This aspect of foreign portfolio investment in the public sector is an unexplored territory. Book II fills this gap. It examines the terms under which contractors undertook each specific work and describes the reasons why the actual outcome often failed to meet the goals set by the state. The plans, preferences and roles of the foreign and local bankers, the construction companies, the state 'technocrats', the National Assembly, the Greek government, and the country's foreign supervisors are all examined. The Book shows why the momentum attained in public work financing and building prior to stabilization was not maintained under the gold exchange standard system. The process whereby internal conflicts were a reflection of the juxtaposition between the state and foreign capital (and vice versa) and the contribution of domestic funds to these 'foreign projects' are brought into relief. Finally, the Book examines unfulfilled 'dreams', namely the loan that did not materialize (the Seligman loan), the concession that was cancelled (the concession for the Vardar valley) and the Anglo-Hellenic joint ventures that floundered (the Hellenic Construction Co.).[2] (See Table 1 for an outline of the infrastructure loans raised, projects and concessions granted to foreign contractors between 1922 and 1932).

*Of the £16,000,000 raised outside the framework of foreign formal tutelage all but £1,000,000 (i.e. the Swedish match loan of 1926) were spent on public works.

The story to be told is of broad interest for the history of modern Greece in that it sheds light on the internal weaknesses of the state. But the analysis of the role of foreign capital in the development of Greece's infrastructure is not only of Greek interest. In recent years, the literature on the history of multinational enterprises has dealt with two themes which have traditionally been neglected and which occupy a central position in this Book. The first is the nature of the relationship between merchant banks and multinational firms. The second pertains to the ways in which foreign capital has interacted with domestic institutions. This thesis supports Mira Wilkin's observation that foreign capital saught to create the familiar within the unfamiliar.[3]

Table 1

Foreign Portfolio Investment in Infrastructure: 1922-1932

The Loans (nominal value)		
The Athens Water Loan	(1925)	($10,000,000)
The Belgian Railway Loan	(1925)	($21,000,000)
The First Public Works Loan	(1928)	(£ 4,000,000)
The Swedish School Loan	(1930)	(£ 1,000,000)
The Second Public Works Loan	(1931)	(£ 4,600,000)
Total nominal value of the loans		£16,000,000
Real capital of the loans		£13,672,000
The Schemes		
The Athens water scheme		1925
The Belgian railway project		1925
The reclamation of the Vardar valley		1925
The building of a national road network		1928
The reclamation of the Struma valley		1928
The construction of schools		1930
The Concessions		
I. Management of the Athens water system.		
II. Land development agency of the Vardar valley.*		
III. National road maintenance company.*		

*This concession was cancelled by the government after the legal papers were drawn. See Book II, Section I, Chapter 3 and Section II, Chapter 1

In the following pages and chapters the web of the close cooperation of Hambros with the National Bank of Greece is delineated. Hambros saw the N.B.G. as a factor of stability and continuity within an unstable environment.[4] By investigating the process through which Hambros sought to extend its dominance in Greece two points are revealed: i) the tactics used by British merchant banks abroad to obstruct foreign competition (which in this instance came under the guise of American rivalry); ii)the ways in which local banks 'exploited' their foreign connections in order to enhance their power at home.

1. The Methodological Framework

The features of each project are highlighted. (See below chart 1 for a brief outline of the unique features of each scheme). The thesis examines the extent to which a common pattern was established. In the absence of access to data referring to similar projects undertaken at the time by foreign capital in other countries (at relatively the same stage of development as Greece) it is not possible to make a comparative, international cross-section analysis. Thus, the approach is necessarily a "micro" time-series, comparing five Greek schemes. An interesting incongruity developed over time. At the start of the period the government had difficulty raising foreign capital and imposing 'hard' terms on the contractors. However, by the end of the twenties although foreign finance was still difficult to secure, the state had become more expert in the 'policing' of foreign contractors who were now prepared to accept a lower remuneration, more government control, stricter adherence to deadlines etc..

Unfortunately, the economic aspects of the projects, important as they may have been, cannot be studied in detail within the context of this dissertation. First, the available data is limited. There is no information with respect to: how much was spent on labour, what percentage of the funds was spent domestically, what was the actual level of general expenses charged by the contractors, and whether the contractor used the funds with care in purchasing materials and services. Second, the macroeconomic and long-run contribution of these projects to the Greek economy cannot be accurately ascertained for a number of reasons. In large part the absence of economic data for all five schemes is a serious constraint. Moreover, in at least two instances (i.e. the road and railway schemes) the projects were never actually finished! Two other projects (i.e. the reclamation of the Vardar and Struma valleys) were completed not by the contractors but directly by a state agency long after WWII. The study of the economic impact of the land reclamation schemes falls thematically and chronologically outside the boundaries of this dissertation. Finally, even if these problems did not exist a pure cost benefit analysis of the schemes would not be possible for two additional reasons. First, with the exception of the land reclamation projects they were not directly productive (i.e did not directly lead to an increase in ouput-national income). Second, in the final event, foreign capital contributed only marginally to these schemes. What started out as foreign investments were often transformed into mixed 'Greek' investments.

Chart 1

Unique Features of Each Project

i.	The Athens water scheme: The only instance in which the contractor set up a management company. This and the fact that the long-term financing of the project were arranged in advance account for its successful implementation. The scheme also demonstrates the alliances foreign capital made with antagonistic local banking interests and vice versa.
ii.	The reclamation of the Vardar valley sheds light on the behind-the-scenes activities of Hambros and the National Bank and shows how political instability and underdevelopment hampered the flow and absorption of foreign capital.
iii.	The Belgian railway scheme stands out as an exception in that militaristic considerations were given priority over economic.
iv.	The road scheme illustrates the backward state of Greek contractors and how the government was inclined to offer them extravagant terms.
v.	The reclamation of the Struma valley exemplifies the state's desire to maintain a balance between the penetration of American and British contractors into Greece. It is also a good example of the fact that the state did not decide which contractor would be awarded a project solely on narrow economic grounds. For, which firm was cheapest was secondary to considerations of a wider politico-financial nature such as keeping both the U.S.A. and British governments satisfied.

2. The 19th Century Legacy and the 'New' Framework

The first public utilities in Greece were set up, owned and managed either by Greek local authorities or by foreign registered companies. These operated under the terms of a specific licence.[5] Prior to 1922, the central state spent funds for infrastructure only on roads and railways.[6] The amounts spent represented only an insignificant portion of total government expenditure and foreign borrowing. (See Table 2) The building of roads was granted to domestic construction companies and was financed through the state budget. Eventually a 'road fund' was set up.[7] Railways were built by foreign contractors but for strategic reasons the state did not want to leave this activity totally to the discretion of foreigners. Thus, the pattern used was the following. The cost of construction and the fee of the firm commissioned to build a certain line were paid from the proceeds of a loan raised by the government on the international capital market. Upon the completion of the work, the state would either award to the contractor a concession for the new line or operate the line itself. By 1922 the state operated half of the country's railway network.

Following the Asia Minor debacle, sharp pressures developed and heavy burdens were placed upon the Greek economy, largely because of the refugee influx. The handling of this problem brought into relief the backwardness of the country's socio-economic infrastructure. The state was by necessity forced to widen its economic role. The expansion of the country's cultivable land (so as to improve the land labour ratio), the building of roads, as well as the creation of a modern water supply and electricity networks in the urban areas, were urgently required. Railway development was only a small part of the new package of social overhead capital projects required. At this point borrowing for public works became a major element of foreign borrowing. (See Table 2).

Table 2

Foreign Loan Capital Raised for Public Works by the Government

I. Public work loans as a % of the total foreign loan capital raised	
i. 1824-1922:	6.6%
ii. 1922-1932:	37.6%
II. Railway loans as a % of the total foreign loan capital raised for public works	
i. 1824-1922:	100%
ii. 1922-1932:	26%

Compiled from: D.Stephanides, Foreign Capital Inflow and its Economic and Political Consequences, (Salonika, 1930), pp.179-183, and A.Angelopoulos, The Public Debt of Greece, (Athens, 1937), pp.30-44.

Nevertheless, the new public work projects were designed on the 19th century 'railway model'. Namely, the state commissioned foreign firms to construct specific projects on the basis of an agency contract. It resorted to this pattern of foreign investment in order to avoid the kind of dependence associated with foreign direct investment. However, this mode of financing social overhead projects was not totally free from external informal control. All of the loans raised were tied and in the case of the Athens water scheme the contractor operated a long-term concession.[8] The agency contracts proved to be expensive affairs, as the foreign contractors offered their services on a cost-plus and not a lump-sum basis. Usually, the construction costs, the fees and general expenses were exorbitant. The result was that foreign portfolio investment in infrastructure, in addition to bloating the external debt of the state, served indirectly to enhance institutionalized foreign tutelage. As the debt grew and more revenues were mortgaged to foreign interests, the more the government became vulnerable vis a vis the League of Nations and the I.F.C.

It should be remarked at this point that a lopsided situation developed regarding the allocation of American and British capital in Greek public works. American contractors were commissioned to construct three out of the five projects. The British had to contend themselves only with the promise of a land reclamation scheme which actually began after 1932. However, Britain (i.e. Hambros) succeeded in almost monopolizing the provision of funds for public works. More than 37% of the loan capital was issued directly by Hambros while the U.S.A. provided only about 6.3% of this capital. (See Table 3).

Table 3

Distribution of Foreign Loan Capital Raised by the Government for Public Works by Country of Origin: 1922-1932

Britain	37.5%
Belgium	27 %
Greece	12.5%
Sweden	9.4%
U.S.A.	6.3%
Switzerland	2.5%
Italy	2.5%
Holland	1.9%

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp.513-526.

3. Blockages to Pure Foreign Direct Investment*

The long gestation period, the large sums involved, and the technical skills required for infrastructure development made necessary the importation of capital and expertise. The question then arises as to why the state did not turn to foreign direct investments. It is not easy to give an answer. On the one hand there are indications that foreign capital was not eager to invest in this type of activity in Greece. On the other, there prevailed in Greece a climate which was hostile towards concession granting. To a certain extent this phenomenon was related to the surge in the quest for national autonomy which developed following the Asia Minor debacle.[9]

Three large direct investments were undertaken. One was the telephone network in major cities which involved Dutch capital, the New Antwerp Electrical Works. This concession remained dormant until 1931. The second, the transfer of control over the P.A.P. rails to Hambros, became a minor affair. A major net transfer of foreign funds did not take place because Premier Venizelos refused to grant the concessionaire the terms demanded.[10] Only the third concession, the electrification of the greater Athens area by a group set up by the British firm Power and Traction materialised as planned. It is notable that it was not a pure foreign investment as the foreign contractor (i.e the Power and Traction group) demanded that half of the amount invested should be covered by a local consortium of banks. This project enjoyed active support under the Trade Facilities Act, and the contract for its implementation was signed during the Pangalos dictatorship, at a time when the National Assembly was emasculated of its power to ratify or cancel international economic agreements.

The net inflow of foreign direct investments was small. It was not much over £4,500,000.[11] The only public institution that supported foreign direct investments as an alternative strategy for economic development was the National Bank of Greece. Indeed the N.B.G. set up a local banking syndicate in September 1924 (the Syndicat des Etudes et des Enterprises) at the request of British Financiers with whom it was negotiating a F.D.I. regarding the electrification of the Athens area. (For the controling interested of the N.B.G. in the syndicate see below Table 4).

*As already mentioned in the General Introduction foreign direct investments are not examined in the context of the thesis.

In addition, the National Bank of Greece reached agreements with foreign banks and institutions, that did not always meet with the approval of the Greek government. In at least one instance the National Bank sought a secret arrangement with foreign capital.

Table 4

Distribution of Share Capital of the Syndicat des Etudes et des Enterprises

Institution	Number of Shares
National Bank	8
Bank of Athens	2
Anatolian Bank	2
Ionian Bank	2
General Bank	1
Popular Bank	1
Commercial Bank	1
National Economy Bank	1
Industrial Bank	1
Bank of Values	1

Compile from: N.B.G./H.A., the minutes of the General Council of the N.B.G., of October 23, 1924.

It might be argued that had foreign direct investments been the rule instead of the exception, the public work projects would have been completed sooner. The contractor would have had an incentive to build at a faster pace. **As things turned out, the framework of foreign portfolio investment proved unsatisfactory as the state was unable to raise the capital needed for the works assigned to foreign contractors.**

4. New Arguments Put Forward by the Dissertation and Conclusions Reached

1. The story of the public work contracting reveals the country's peripheral status in the world economy. Concession hunters were attracted to Greece. But, it was no Eldorado in the eyes of the international business community. There were not many bankers and contractors who wanted to invest in Greece as compared with Latin American countries. The contendors for any one specific project were never more than five. In part Greece was not attractive because of its small size and population. Greece faced limited options, and that was true both before and after stabilization.[12]

2. The story of foreign finance for infrastructure underlines the differing strategies of the U.S. and British governments in SouthEastern Europe during the interwar years. The government of Britain, in an aggressive manner, sought to promote British private national economic interests in Greece (as for example, the assignment of contract, the selling of surplus industrial stock, etc). For the U.S. government, Greece was and remained on the periphery of its political and economic interests. It actively intervened on behalf of private business interests seldom and only when under pressure.
3. The public works undertaken were all necessary. Only in the case of the railway scheme did strategic criteria prevail. The loans raised for infrastructure development proved to be non selfliquidating. This will be explained separately for each of the projects under consideration. Let it be noted here, however, that with the exception of the Athens water scheme, no detailed plan was laid down in advance although in some cases surveys had been made in the late 19th or early 20th. Lack of planning at both the technical and financial levels resulted in excessive waste in time and economic effort. Furthermore, with the exception of the two land improvement schemes, the other projects were not directly productive in that they did not directly increase national revenue. Moreover, all of the infrastructure works undertaken had an extended maturity period. In addition, the sudden and drastic curtailing of capital supplied in 1932 came at a time when only one of the five projects had been completed. A viscious circle set in. Unfinished projects could not produce income to service the loans raised during 1922-1932. In turn, the 'closing ' of the international capital market hampered the completion of the works. In the end, two out of the five projects were abandoned halfway and never reached fruition. For a country suffering a shortage of capital and backward in terms of infrastructure facilities this was little short of catastrophic. Of course, Greece was not unique in this respect. In other backward countries such as Brazil and Colombia the record was similar as schemes were either abandoned or finished after a considerable delay. Indeed, there was a peculiar coincidence between some Columbian and Greek militaristic railway scheme.[13]
4. The story of foreign finance for public works highlights the difference in approach and mentality of the Greek statesmen with the orthodox AngloSaxon tradition of economic thought. The political body had a structuralist 'naive-Keynsian' approach towards infrastructure development. No one in Greece disputed the need for the schemes. The agony of productively absorbing the stream of refugees was real and in part explains such an

orientation. But, beyond this short-run dimension, public works were seen as the prerequisite for economic development and for economic autonomy vis a vis the west.

The British financial establishment viewed the Greek government's public works 'programme' with reserve. It felt already by the mid-twenties that the government was borrowing indiscriminately. Although it admitted that the schemes contemplated were "undoubtedly necessary" it advised the government to slow down. The British feared that a continuous influx of large amounts of foreign capital would interfere with stabilization and ultimately hurt the credit position of Greece and the interests of existing bondholders. As the years went by the criticism voiced became more and not less vocal.[14] The objection of the British is not surprising considering that at the time in Britain the 'Treasury view' prevailed regarding the utility of state sponsored public works. Indeed, in the name of 'sound finance' the Treasury argued that state-sponsored public works were in principle "diversionary and unproductive".[15]

5. The weak bargaining position of the state in public work financing and contracting was a function of the limited interest of foreign capital in Greece. It should also be underlined that the Greek state was incapable of maximizing external opportunities. In large part the story of public work construction is a sad chronicle of this weakness. The 'bad deals' attained were primarily a consequence of a disarticulated state structure. Greek sociologists and political scientists have painted the state as being a strong and vigorous institution.[16] It is the contention of this thesis that size should not be confused with strength. The large and evergrowing state during the twenties was weak, ineffective, and loose.

Often the state was unwilling and unable to translate policy into programme.[17] There was no clear outline of priorities. The scholar is faced with spasmodic government measures. In the broader world climate and under the specific Greek circumstances of increased exogenous population pressures, Greece nearly intuitively, and copying other examples such as Italy, turned to "productive" investments. There was a simplistic perception that public works would suffice to increase the area of cultivated land and agricultural yields, enhance the commercialization of home produce, improve the quality of life in the urban centers and above all secure self-sufficiency in Greece's staple food item: cereals. But, from there on a series of irrational, often inconsistent policies unfolds. There is nowhere an economic argument as to choices for new investments, priorities, preferences, elementary cost-benefit analysis, and the like.

Political backwardness, reflected in the frequent changes in governments and the intervention of the military, spell out a scenario which was inimical to foreign investments and served to further weaken Greece's bargaining position in the international community. Career patterns were disrupted in the bureaucracy. Ironically, even those enclaves of serious cadre that had managed to develop failed to intervene effectively in the decision making process. Thus, for example the advise of the ministry of communication 'sages' was often ignored by the political leadership. The latter often did not give sufficient attention to the technical details, such as for example the real interest rate of the loans and the remuneration of the contractor. The question of how cheaply or efficiently the works could be done was often for the government an issue of lesser importance than other factors such as the need to: i) maintain a balance between American and British interests; ii) strike an equilibrium between the two rival domestic banking groups (i.e. the National Bank of Greece and the Bank of Athens); and iii) secure sufficient funds to finance the projects. The state did not seem able to make decisions on the basis of economic-technical criteria. In deciding in favour of the one or other contractor, weight was often accorded to factors of a general political nature. On the foreign scene, the tug of war and the occasional 'alliances' between Hambros and its American competitors and on the domestic scene the war between the N.B.G. and the Bank of Athens formed an endless "rosary" in the economic and financial history of the period under study with the Greek state watching passively.

6. In the interwar period many countries borrowed for converting older debts or covering welfare expenditures- "to say nothing of the funds swallowed up by corruption",[18] whereas in Greece the emphasis was on capital projects. Furthermore, foreign capital for infrastructure in the world economy followed the stabilization process.[19] In Greece, stabilization did not lead to a massive capital inflow for capital projects. After 1928 Greece resorted to the international capital market exclusively for public works purposes. The government was planning to raise £22,000,000, but the total amount already raised did not exceed £9,600,000. Prior to stabilization £6,400,000 was raised for public works inspite of the war debt embargo imposed by its major creditor, Britain.

It can again be argued that Greece in the twenties suffered a case of missed opportunities. Stabilization failed to produce the anticipated stream of foreign capital partly because it was attained too late. Furthermore, following stabilization the Greek government made mistakes in handling foreign finance. Thus once again we cannot construct a linear causation argument. **On the one hand, late stabilization was due to exogenous and internal blockages. On the other, the failure of stabilization to promote capital inflows was due to factors outside and inside the power of control of the Greek government.**

Finally, was the flow of foreign capital too much or too little for setting up even a rudimentary process of economic change? Greek contemporary opinion held that the sums borrowed were inadequate and that default was inevitable. Her foreign supervisors argued that Greece borrowed too much. Once more differences in perspectives are present. Which view is more convincing? It seems that what happened in Greece conforms with Fishlow's general observation that capital provided to the borrowing countries was on the whole too little, too late, and at too high a cost.[20] It has been argued that the borrowers benefited from the stream of foreign capital.[21] To the extent that the loans were rescheduled and there was a longdrawn postponement of the service of the debt this was true for Greece. However, the fact that the works were not completed or were completed at a substantial cost and delay implied a heavy loss.

5. Sources

The analysis of the subject has been conditioned by the available material, original and constructed. The primary material does not cover the construction and financing of all the schemes with equal weight. For example, the reclamation of the Struma valley the archival sources are nearly non-existent. A variety of private and public, Greek and foreign sources have been consulted. In particular, the Tsouderos Archive at the Bank of Greece, the Diomedes Archive at the National Bank, the Diomedes Archive at the Greek Literary and History Archive, the Venizelos Archive at the Benaki Museum, the National Bank of Greece Historical Archive, the Greek Ministry of Foreign Affairs Archive, the Bank of England Archive, the U.S.A. Department of State Records, and the Foreign Office Documents at the Public Records Office. Extensive use has also been made of printed primary material (i.e.contemporary newspapers, parliamentary discussions, legal documents, and personal memoirs).

The type of archival material at hand suggests the striking negligence of official Greek archival sources. Pointedly, neither the department of Public Works at the Ministry of Communications, nor the Ministry of Agriculture, nor the maintenance company set up to manage the Athens Water Works have collected and kept financial or other records pertaining to infrastructure development.

References

1. Out of the six loans raised without League supervision only one, the Swedish match loan was a revenue loan. The other five were exclusively raised for public work building. Also, out of the six large projects undertaken only two were not built by foreign contractors. Let, it be noted that all these schemes were foreign financed.

2. For the importance which the New International Political Economy attaches to the study of 'unrealised' projects, see: Tooze, *op.cit.*, p.13.

3. The neglect of these two themes has been noted by Fishlow and Wilkins. See: M.Wilkins, "The History of European Multinationals: A New Look", *J.E.E.H.*, Vol.15, Number 3, winter 1986, pp.483-510.

4. As the Annual Report of the Foreign Office on Greece for 1924 put it: "The complications of contract work, especially without the assistance and advise of experienced Greek collaborators foreign firms can hardly expect either to carry through negotiations or carry out contracts with success". Source: FO371/10771/C2560, Annual Report on Greece for 1924.

5. Very little is known on the subject of the legal framework under which they operated (i.e. time limit to contract, price controls to which they were subjected, public scrutiny, etc.). However, some information with regard to the electricity public utilities is provided in: N.Pandelakis, Ο Εξηλεκτρισμός της Ελλάδας - Απο την ιδιωτική πρωτοβουλία στο κρατικό μονοπώλιο (1889-1956), (The Electrification of Greece, from private initiative to the state monopoly (1889-1956)), (Athens, 1991). Also, for the organization of the ports and roads, see: M.Synarelli, Δρόμοι και Λιμάνια στην Ελλάδα 1830-1880 (Roads and Ports in Greece 1830-1880), (Athens, 1989).

6. A total of 3,378 klms of roads were built between 1835 and 1892, (the 1,346 klms were constructed between 1883 and 1892). The roads were largely coastal, but nevertheless there was no coordination with port building. The latter activity was basically left to the local authorities. The boom in railway construction took place also between 1883 and 1900. (1883-1890 700 klms built versus 1893-1900 120 klms built). Source: Synarelli, *op.cit.*, pp.93,103.

7. The road fund operated between 1867 and 1890. Less interest was shown in the development of the country's ports although a port fund was set up in 1865. Notably, there was no direct coordination between road building and port development. Source: Synarelli, *op.cit.*, pp.93, 117,176-181,198.

8. Exports of British capital as a rule brought immediate benefits to British manufacturers, and this enabled Britain to sell her industrial surplus abroad to underdeveloped countries. (The same observation can be made regarding the U.S.A., Sweden, Belgium, regarding their loans to Greece). Source: Chapman, *op.cit.*, p.174.

9. Greece was not the only country to strive for self-sufficiency and resort to state interventionism prior to the world economic crisis. For the fact that these were phenomena followed since WWI in other countries as well, see: I.T.Berend, "Balkan Economic Development", *E.H.R.*, Second Series, Vol.XXXVII, May 1984, pp.270-271.

10. In 1930-1931 the government essentially 'thwarted' the direct investment made by The Hellenic and General Trust regarding the P.A.P. railways, in large part because it refused to give to the new concessionaire the freedom of action that Hambros demanded. Source: N.B.G./H.A., Public Works, B Railways, File 28: Draft of the new P.A.P. concession, May 5 1931; File 29: Hambro to Venizelos, May 12 1930 and draft petition submitted by the Athens Board of the P.A.P. to the Prime Minister; File 30: memorandum on P.A.P., August 23 1930.

11. For the limited foreign amount of foreign direct investments in Greece, and the almost total absence of U.S.A. interests in this area, see: Hill, *op.cit.*, pp.41-42.

12. Cleona Lewis cites that according to a testimony before the senate committee, at one time during the twenties there were at one time 29 representatives of American financial houses in Columbia trying to negotiate public loans basically for public works. It is also mentioned that about 36 houses, most of which were American competed for a loan to the city of Budapest and 14 competed for a loan to the city of Belgrade. Source: Cl.Lewis, America' a Stake in International Investments, (Washington D.C., 1938), *op.cit.*, p.377. For the fact that numerous foreign concession hunters with what were largely proposals of an "unacceptable character" had appeared on the scene in Greece, see: FO371/8832/C320 Annual report for 1922.

13 In the case of Columbia a railway line began which was "to connect two valleys separated by a range of mountains 9000 feet high, for which there was no economic justification since both valleys had their own outlet to the sea. A very expensive tunnel through the mountain range was begun and then abandoned; and while the Federal authorities were driving a tunnel through the mountains the local authorities were making a costly road over them". Salter, *op.cit.*, p.17.

14. FO371/ 12924 C780/132/119, Annual Report on Greece for 1927.

15. For the objections of the Treasury towards public works in Britain and deficit financing, see: W.R.Garside, "The Failure of the 'Radical Alternative': Public Works, Deficit Finance and British Interwar Unemployment", *J.E.E.H.*, Vol.14, Number 3, winter 1985, pp.537-555.

16. Notable examples of this approach are : Mouzelis, *op.cit.,passim.,* Also, K.Vergopoulos, Κρατισμός και Οικονομική Ανάπτυξη (Etatism and Economic Development), (Athens, 1978).

17. This was not an exclusive characteristic of Greece. For the fact that even developed countries lacked in the interwar years a coherent state strategy "interms of public works, see: D.Barjot, 'L' innovation dans les Travaux Publics (XIXe-XXe Siecles)', *Histoire Economie et Societe*, Numero 2-1987, pp.209-231.

18. According to Berend and Ranki, *op.cit.*, p.230 in referring to Hungary: "Only 20 percent of the loans obtained were spent on productive investments. The example of Hungary is far from unique. In fact, Rumanian and Yugoslav writers have cometo a similar conclusion without the support of accurate statistics....".

19. Salter, *op.cit.*, p.19. Also, R.I.I.A., (1937), *op.cit.*, pp.20-22.

20. Fishlow also states that "the loans were too dependent upon political considerations and too much [was] allocated to consumption and military purposes". However, this was not the case with Greece. Source: A.Fishlow, *op.cit.*, p.143. Let it be noted that Salter in his writings, on the contrary maintained that the scale of borrowing in the twenties was "inflated". See: Salter, *op.cit.*, p.17.

21. Source: summing up statement made by Prof. A.Fishlow in the Tenth International Economic History Congress at the A Session on 'Foreign loans, debt and economic development in the 19th and 20th centuries' on August 24 1990.

SECTION I

THE MOMENTUM OF 1925

During 1925 the government assigned to foreign capital the construction of four large public work schemes*. This was no small feat! Never before was there so much activity in the realm of infrastructure building. However, this momentum was not maintained. During the following seven years (i.e.1926-1932) only two new major public work contracts were signed. This dissertation investigates this momentum and establishes the reasons why it was not sustained.

Chapter 1

The Athens Water Scheme

1.1. Introduction

1.1.1. The state of present research and the new interpretation offered by this thesis

The construction of the new Athens water system was the first infrastructure project to be undertaken in Greece during the twenties. It was also the first large scale public utility scheme implemented outside the field of transportation and financed by American capital. Yet, inspite its significance, this project has not been the object of serious research. Two distorted interpretations have been offered by the historiography. The one approach places emphasis on the fact that the terms imposed on the government were onerous. It is argued that the investment was of an unproductive character and had limited multiplier effects on the economy.

*The one, the electrification of Athens was a F.D.I, and is not examined within the context of this dissertation.

The constructing firm (Ulen & Co.) and the management company set up with the Bank of Athens are presented as greedy rascals. It is indicative that no mention is made of the limited options facing the government considering that no other contractor was willing to provide financial backing for the project.[1] The other interpretation maintains that the scheme was a good thing simply because it was necessary. This approach lacks critical judgement and fails to consider the terms under which the project was implemented.[2] These two simplistic approaches, which have never been challenged, share the following 'methodological' mistake- they are ahistorical in that they have presented this scheme in isolation and have not examined it within the general context of foreign portfolio investment in infrastructure.[3] Hence, this dissertation adopts a comparative stance and argues that the project was vested with three unique features. First, although it was strictly speaking an indirect foreign portfolio investment -the total cost of construction was covered by a foreign loan raised by the government-the contractor was allowed to set up a concession for the management of the works. Second, the construction actually finished before 1932.[4] Third, a banking institution established in Greece, other than the National Bank of Greece, set up a joint venture with foreign capital.

In addition, this project is of special interest to the scholar of foreign finance because it sheds light on the alliances local banking capital made with foreign interests and vice versa. Namely, it uncovers the development of two rival blocks of power: Hambros in alliance with the N.B.G. versus Seligman allied with the Bank of Athens. The theme of this Anglo-American cum interhellenic 'conflict' has never been studied before.

1.1.2. The sources

One might expect that there would be a plethora of archival documents on the Athens water scheme considering its significance. But, in reality this was not the case. Neither the ministry of communications nor the Athens Water Company possessed a historical archive. And, unfortunately, the Bank of Athens archive pertaining to the period is incomplete. These deficiencies cannot easily be resolved by references to other primary sources. The Greek Ministry of Foreign Affairs Historical Archive contains no files on the scheme as the negotiations did not involve large issues of a political and strategic nature as was for example the case with the

League of Nations loans. Also, the U.S.A. Department of State Records contain only few references to the subject. This corroborates the assertion of the dissertation that at first the penetration of American capital into Greece was undertaken spontaneously by businessmen and without substantial help or interest on the part of the U.S. government. However, the relative dearth of archival sources contrasts to the plentiful published 'primary' material dealing with the topic: the published reminiscences, the large number of legal contracts referring to the scheme and foremost the parliamentary minutes. Notably, this project was a major topic of discussion of nine parliamentary sessions.[5]

1.1.3. Origins of the problem and the first attempts to find a solution

"It is unusual if not unique for a population of some 800,000 inhabitants to suddenly become possessed of a complete new water supply".[6] And, yet this is exactly what happened in the case of Athens. In the century after independence during which the capital of Greece had transformed itself from a squalid village of 5,000 into a bustling metropolis of more than half a million, absolutely nothing had been done to modernize water facilities. As a result, the artesian wells and the aqueduct system that had been constructed by the Roman Emperor Hadrian around A.D.130 had to suffice.[7] The distribution of water was uneven. The few who were fortunate enough to have their houses connected with the large main that brought water from the end of the Hadrian aqueduct were reportedly as "liberally supplied with water, as they would have been in New York City". While, in the poorer districts women stood in line at the street fountains in order to collect a few pints of water.[8]

The need to increase the Athens water supply had been first recognized by the state in the late 19th century. But, the government lacked financial resources and the foreign and Greek experts commissioned to study the problem were unable to provide a satisfactory solution. Two types of scheme were proposed: i) to draw water from lake Stymphalia which lay south of Athens, or ii) to tap water from the springs in the mountainous area north of the city. Both proposals were costly and had technical drawbacks.[9]

The water shortage problem was exacerbated by the beginning of 1923.[10] As a result of the refugee influx from Asia Minor, suddenly the population of the greater Athens area almost doubled becoming 800,000 compared to 500,000 in 1918.[11] In December 1924, it was estimated that the daily supply of water was less than 12 litres per person.[12] Moreover, by this point, with the swelling of the population, the excessive impurities in the water system had begun to pose a serious threat to public health. Typhoid fever and water borne diseases became endemic.[13] Under the circumstances, it became absolutely imperative to set up a new water system. Not surprisingly, the water issue became a favourite topic of conversation. According to a caustic dictum which achieved notoriety, in Athens one could "...not during the duration of one single day drink tea as well as take a bath. Because if one takes a bath in the morning one is told in the afternoon that there is no tea, whereas if one drinks tea, one is informed that he cannot take a bath!"[14]

1.2. The Decision to Construct an Artificial Lake and the International Tender

As noted above, financial and technical problems frustrated earlier attempts to improve water supply. However, by 1923 the second set of problems had been resolved. During the first half of that year the department of public works at the ministry of communications decided to adopt the radical proposition put forward in a report that the American firm Ford Bacon and Davis had prepared two years earlier for the Bank of Pireaus. This study had set out a detailed plan for the construction of an artificial lake at Marathon, 16 miles outside Athens.[15] This solution was far superior to other previous proposals because it made possible a substantial increase to the supply of water by tapping the abundant fresh water sources of the surrounding valleys and mountains. In August 1923, a law was passed for the holding of an international tender for the creation of a modern water system.[16] The project would be undertaken on a cost plus basis (i.e. the cost of construction would burden the Greek state) but the builder would be under the obligation to provide a loan so that the government could cover in full the expenses. The indirect placement of loans through contractors in order to finance the building of public works was usually employed by governments with a weak credit. For example, Latin American countries had occasionally resorted to this practice.[17]

Inspite of the urgent need for a new water system, the tender was actually held not immediately in August 1923, but in September 1924. It is not difficult to discern why there was a delay of one year. As has been explained in detail in Book I, Section I, the Greek government at the time was trying to win the confidence of the League of Nations, the Bank of England, and the Treasury in order to float the First Refugee Loan. The problem was that the law announcing the decision to hold an international tender was passed a few days before the signing of the Geneva Protocol of September 1923. With this document the League of Nations put severe restrictions on the Greek government with respect to foreign borrowing. Thus, had Athens proceeded immediately with the international competition, it would have provoked the authority of the League and the Geneva Protocol. It was by no coincidence that the tender was actually held in September 1924 shortly after the League of Nations decided to allow the Greek government to borrow foreign capital for productive purposes.[18]

The water scheme did not become a dead issue during the one year that intervened between the declaration of the intention to hold the tender and its actual materialization. By then, the Bank of Pireaus had lost interest in the project for reasons that we do not know. However, in the meanwhile the Bank of Athens had become interested. It was concurrently the second largest commercial bank operating in Greece as well as the largest foreign bank established in the country. This bank was a member of the Syndicat des Etudes et des Enterprises which the National Bank of Greece had created in September 1924. (See Book II, Introduction) One of the aims of this syndicate was to set up a joint venture with foreign capital for the finance, construction, and operation of a new water system for Athens. However, the Bank of Athens was not content to simply participate 'passively' in the plans laid out by its arch-rival the National Bank. It aspired to cooperate with foreign capital on its own strength.

Thus, the Bank of Athens which after WWI had developed close links with the U.S.A tried to find an American engineering firm that would be interested in undertaking the project. Its search was fruitful and in January 1924 it introduced to Venizelos -who for that one month happened to be Prime Minister- a likely contestant for the project, the New York firm of Ulen & Co.[19] Technically, Ulen & Co. was more experienced in constructing sewages rather than water work systems. In addition, it was not one of the bestknown American construction firms. However, it was not exactly a newcomer in the field and was a fast growing company.[20] Already by 1924 it had undertaken a number of projects for the U.S. Federal, the Polish and Latin American governments. Two were the factors that weighed heavily in favour of Ulen, from the point of view of Greece. The first was that it had constructed -the longest water tunnel in the world-,the 18 mile long Shankeden water tunnel for New York city. For, the most difficult aspect of the Athens water scheme was that it necessitated the construction of a long tunnel.[21] The second was that this American contractor was familiar with the practice of accepting government bonds in return for building a specific project. (For example, it had undertook to build a new railroad across the Andes for the Bolivian government within such a financial framework.) This was a definitive advantage for during the early twenties not many contractors "were attempting to do much financing themselves".[22] The fact that Ulen & Co. joined forces with a financial institution was not peculiar for this firm. It usually worked with an "associated group of bankers". In this instance by cooperating with the Bank of Athens it acquired a local ally in a country which was little known to American interests.[23]

By the time the international tender was held on September 27, 1924, Ulen & Co. had discussed the project with each of the four cabinets that had served since January of that year! However, Ulen & Co. chose not to participate in the tender. The explanation offered in 1925 from governmental sources was that this firm had not had enough time to prepare a written offer.[24] But, it seems unlikely that this was the real reason for the abstention considering that it had already submitted a detailed offer to undertake the scheme with the Bank of Athens in February 1924.[25] A more plausible explanation is that Ulen & Co. decided to abstain as a matter of tactics, because, prior to the international competition, the department of public works had found its terms onerous.

Of the four companies that competed in the tender, the two, i.e. Philip Holzman and Siemens Bau Union made offers that were of high technical competence and "marvels of minutiae and of painstaking detail".[26] However, neither of these two firms succeeded in being awarded the project because neither one was able to offer financial backing for the construction of the scheme. (It is not known whether these two firms were short on cash or whether they were not willing to risk funds in Greece). Consequently, for one more time in modern Greek history the critical factor facing the government was the 'financial constraint'. The latter had to came face to face with the bitter fact that due to shortage in the effective supply of capital it had limited options facing it. Indeed, insofar as Ulen was concerned the failure of the tender was good news. It enhanced its bargaining position vis a vis the government as it was the only contractor willing to offer a loan to the government for the realization of the project.

1.3. The Assignment of the Project to Ulen & Co. and The Bank of Athens

The Athens water scheme was not the only project under consideration during the autumn of 1924. After the signing of the new Geneva Protocol in September 1924, there had been an outburst of 'activity' in the field of infrastructure development. Plans were being discussed regarding the electrification of Athens; the creation of a national road network; the extension and repair of the existing railway system; the reclamation of the Vardar valley. One gets the impression from looking at the facts that the foreign concession hunters, the Greek banking establishment and the government were in a hurry to catch up with the time lost.[27]

Ten days after the tender was held for the Athens water scheme in September 1924, the liberal politician Andreas Michalakopoulos stepped into office. He was the fifth Premier to serve during 1924 and managed to stay in power for only eight months. A dilemma he faced was whether to postpone the Athens water scheme, or to sign a contract with Ulen & Co. considering that it was the only firm that had offered to provide financial backing for the project. The Premier at once took the decision to reopen negotiations with this American firm. Michalakopoulos did not want to postpone the creation of a new water system because the lack of water had become a social problem and health hazard after the refugee influx. However, it is also apparent that in deciding to go ahead with this project first, he was also influenced by the fact that an American firm (i.e. Ulen & Co.), and a bank without British connections (the Bank of Athens) were the single joint contestants.[28] As yet, relations with the American government had not been poisoned. No prehistory of financial cum political dependence existed with the U.S.A., as had been the case with France and Britain. Greece was a country that still belonged "to the backwaters of American foreign policy".[29] The American government was neither interested in Greek politics nor did it pursue an aggressive commercial and financial policy. Its attitude was that of leaving business to itself.[30]

Michalakopoulos was against opening new fields of economic dependence from British financiers and in particular Hambros.[31] This aversion of his was partly due to the close ties which this merchant bank had with the Greek monarchy and partly to the fact that the British establishment (the F.O., the Treasury, the Bank of England) were at the moment exploiting Greece's desperate need to raise capital for the settlement of the refugees in order to extract favours and concessions from the government.(See: Book I, Section I, Chapter 1)

Testimony to of the Greek Premier's antithesis towards British capital was his unwillingness to go ahead with the scheme for the electrification of Athens. Michalakopoulos was indeed in a difficult position. In his urge to secure support for the refugee loan from London, he had promised that the financing, construction, and operation of the new electricity concession in the greater Athens area would go to British interests.[32]

Ironically, by rushing into arranging a deal for the creation of a new water system for Athens with Ulen & Co.,and by avoiding completely (after the flotation of the First Refugee Loan) to even discuss the electricity concession, the new Premier became inadvertently entangled in the battle between the N.B.G., and The Bank of Athens. For, these two important rival banking institutions were at odds on the 'electricity' question: On the one hand, the N.B.G. joined forces with British capital and demanded that the government grant the new concession to an Anglo-Hellenic syndicate (in which The Power and Traction Finance Co. would have the controlling interest).[33] On the other hand, the Bank of Athens had an important stake in the old 'Athens Electricity Company'. This firm wanted to renew its concession and undertake the new electricity works in Athens with the assistance of the Belgian capital.[34]

This situation had repercussions on how the negotiations were carried out for the Athens water system. Theoretically, the department of public works should have been charged with the conduct of the discussions with Ulen & Co. and the Bank of Athens for this important project. However, they were handled almost singlehandedly by the Premier.[35] Michalakopoulos feared that certain engineers of the department of public works -who continued to hold reservations about whether the scheme was technically feasible- might under the instigation of the N.B.G., undermine his effort to reach an agreement with Ulen & Co. and The Bank of Athens.[36]

1.4. American Versus American: The Contract in Parliament

The flotation of the First Refugee Loan in mid-December 1924 was a great success and the international community appeared to have regained confidence in the Greek economy.[37] Within the general context of this euphoria, the government decided that the water works contract which had in the meanwhile been drawn, should be signed the soonest possible. The date set for this event was December 22 1924. On the previous day, an American contractor, J.R. MacArthur, had arrived in Greece and publicly demanded that the signing of an agreement with Ulen & Co. be postponed for one week in order that he have time to prepare and present a written counter proposal.[38] This contractor had participated in the international tender held in September 1924. However, his offer had at the time been rejected by the government on technical and financial grounds.[39] For Ulen & Co. the prospect that the government might yield to MacArthur's demand for postponement did not seem either appealing or improbable, as twelve months had already gone by since it had first proposed to undertake the project. Thus, on December 22 1924, Ulen & Co. announced to the government that if during the day the contract were not signed it would consider itself absolved from any obligation. This ultimatum served its purpose and the contract was signed at once.[40]

MacArthur did not give up hope as the agreement had to be ratified by the National Assembly within two months.[41] MacArthur at once prepared in writing a counterproposal and launched an aggressive publicity campaign, which consisted of granting interviews and standing in person outside parliament handing out pamphlets with details on his "superior" offer.[42] Accusations appeared in the Press that the contract with Ulen & Co. was a sell out to foreign interests and a national scandal.[43] The MacArthur counterproposal drew public sympathy and served as an attractive focus for criticism against Michalakopoulos. The fact was that the Premier had become unpopular not only with the National Bank of Greece, but also with the radical elements in the National Assembly and the rightist quarters of the political spectrum.[44] As a result of the public stir over the 'water' issue the government did not hurry to present the contract signed with Ulen & Co. for ratification. Instead, it stalled on purpose with the hope that in the meanwhile interest in the MacArthur offer would subside, and that as a result prolonged debates in Parliament would be avoided. Thus, the legal decree for the ratification of the contract was presented to the National Assembly by the minister of communications on February 7 1925, i.e. two weeks before the deadline for its ratification.[45]

But the manoeuvre failed. The government was forced to face a long, complicated parliamentary debate which occupied the center stage for almost eight weeks as all other issues of importance such as the drawing of the new republican constitution receded into the background.[46] In view of the public stir MacArthur created, the special parliamentary committee set up to study the contract followed an 'unorthodox' procedure: it subjected the signed contract to a point by point comparison with the proposal put forward by MacArthur.[47]

The MacArthur proposition was attractive compared to the contract signed with Ulen & Co. in that it 'promised' a larger loan at a lower real rate of interest and a longer redemption period. In addition, the level of general expenses it charged for the building of the works was lower. However, MacArthur was unable to secure the approval of the parliamentary committee and the National Assembly for three reasons. First, the disadvantages of his offer regarding the cost of construction were plenty. (See Table 1 below, Part II, points A,C,D,E). Second, MacArthur was not a serious man of business. He had just departed from the well established firm of MacArthur's & Bros and was experiencing serious financial difficulties.[48] Recently he had proven incapable of providing in full the amount of capital he had promised the Italian government for the construction of an important water scheme in Italy.[49] Third, his offer was 'fictional' considering that he had no financial backing. Indeed, his claim that Speyers & Co.-the New York Bankers who had floated the American tranche of the First Refugee Loan- had agreed to provide a loan of up to $16,000,000 to the Greek government if his newly set up firm, The American Hellenic Development Co., undertook the implementation of the water scheme, was proven false.[50]

In contrast to The American Hellenic Development Co, Ulen & Co. enjoyed the advantage that it was a well established firm, capable of providing financial backing for the scheme. In addition, it also enjoyed the assent -albeit silent- of the higher echelons of public administration in Greece. For J. Coundouriotis who was Head of the board of directors of The Bank of Athens was the brother of the President of the newly founded Republic.[51]

On April 4, the eve of the final deadline for the "validification" of the contract, the National Assembly gave a unanimous vote in favour of a modified version of the original contract that had been signed on December 22. Expost the MacArthur counterproposal served one useful purpose: Ulen & Co. and The Bank of Athens were more easily 'convinced' to accept the modifications put forward by the parliamentary committee. (See Table 2 below).

The construction of the water works did not start immediately after the domestic opposition was won over and the ratification procedure completed. This was not possible for the first tranche of the Water Loan was floated -not as was hoped within a few days- but instead in July 1925. This delay of over three months was due to the obstacles put in way of the flotation of a loan by Britain and the French government. (The first wanted to block the penetration of American capital into Greece and the second wanted to force Greece to reach a settlement on the Ottoman debt. For details see section 1.6.1, b. below.).

In sum, the manner in which the Athens water problem was handled by the Prime Minister, and the criticism voiced against it, cannot be studied in isolation. What was at stake for both the opposition and the government where larger issues apart from the specific question of how to quench the thirst of the Athenean population. For Michalakopoulos the central issue was the need to secure funds for the scheme and establish close economic ties with the U.S.A. so as to lessen the growing dependence on Britain as a source of capital. For, the opposition parties what was at stake was the Premier's inability to form a strong central party. As for the N.B.G., it's prime concern was to secure its position of dominance in the newly opened field of infrastructure development.

Table 1

Comparison Between the Terms of the Contract Signed and
the American Hellenic Development Co.
December 1925

I) The Loan		
	Ulen & Co	A.H.D.C.
A. Nominal amount of loan	$10,000,000	$16,000,000
B. Price of issue	85%	87%
C. Nominal interest rate	8%	7.5%
D. Real interest rate	9.4%	8.6%
E. Redemption period	22 years	20 or 60 years
F. Right of early redemption	after 5 years	after 5 years
G. Flotation method	4 tranches	1 or 4 tranches
II) The Construction		
	Ulen & Co	A.H.D.C.
A. Estimated cost of works	$6,400,000	$8,9-11,000,000
B. General expenses	17% of cost	14% of cost
C. Profit of constructor	$1,200,000*	10% of cost of works
D. Gain for constructor if scheme completed at less than estimated sum	none	50% of economies
E. Penalty for contractor if total cost of the scheme surpassed the estimated cost	none	10% of surplus amount spent if 115% of estimate surpassed
F. Penalties for contractor if works completed after 5 years	none	$300 per day
III) The Concession		
	Ulen & Co	A.H.D.C.
A. Duration of concession after completion of works	22 years	20 or 60 years
B. Profit of concessionaire	7.5 % of net income	if 20 years: 7.5%, if 60: 1/3 more

*This was a fixed fee.

Compiled from: *G.P.D.*, Fourth Constitutional Assembly, Vol.D, Minutes of the Assembly of March 23 1925, pp. 610-624. Also: *G.G.*, First issue, Folio 100, April 24 1925, Water Works contract.

Table 2

The Water Works Contract: A Summary of the Terms as Phrased in the Original Contract and the Modifications Proposed.

I. The Mode of Financing of the Scheme

A. Basic characteristics of the original water works contract of December 22 1924.

a. $10,000,000 loan to be supplied to the Greek government jointly by Ulen & Co. and The Bank of Athens in four annual tranches beginning in April 1925. The I.F.C. placed in charge of the service of the loan.Real rate of interest 9.4%.

b. Supplementary loan to be raised jointly by the constructor and The Bank of Athens when needed. Terms of loan to be determined by the conditions ruling in the international capital market at the time of it's flotation.

c. $1.000,0000 short term loan to be granted jointly by Ulen & Co. and The Bank of Athens with the same real rate of interest as the $10,000,000 loan in order to improve on the existing water supply system.

B. Modifications proposed by the parliamentary committee.

a. The $10,000,000 should not be placed under the control of the I.F.C. This proposal was not accepted by Ulen & Co. and The Bank of Athens and the contract as a result was not modified. (However it is explained why I.F.C. control did not become effective).

b. The terms for the supplementary loan should not be heavier than those of the $10,000,000 loan. Ulen & Co. and The Bank of Athens refused to accept this proposal and as a result the contract was not changed.

c. The short term loan for the provisional works should amount to $2,000,000 and not $1,000,000. This proposal was not accepted by the constructor and The Bank of Athens and the contract was not modified.

II. The Terms under which the Project was Constructed

A. Basic characteristics of the original water works contract of December 22 1924.

a. No upper limit is placed for the cost of construction. Agreed time period for completion of works: five years. If works are not completed within the one year following the time specified the contractor will be declared in default. If project will cost less than estimated then the constructor undertakes to build sewerages with the remaining funds.

b. The Greek government will supervise the construction through an inspection and an audit committee.

c. The constructor will receive a fixed fee of $1,200,000. In addition the general expenses of the constructor could amount to a maximum of 17% of the construction cost.

d. The government should be consulted beforehand by the contractor when purchases and subcontracts are made for over $5,000.

e. No financial penalty is posed for the faulty execution of works.

f. Whenever Greek materials suitable for the works are available on equal terms with foreign materials they shall be given preference. Also foreign experts and specialists will be used in the construction and administration of the works only when necessary.

B. Modifications proposed by the parliamentary committee.

a. The contract should stipulate that thirty days after the ratification of the contract Ulen & Co. shall have engineers on the ground ready to begin work and prepare the definite plans. This proposal was accepted by the contractor. Also it was proposed that it be clearly stipulated in the contract that in the event that the realized cost is less than the estimated the contractor will construct those sewages as might be indicated by the government. This modification was also accepted by the contractor.

b. It should be stated in the contract that the government should have the right to decide in which order the plans will be executed. The contractor accepted this modification, but substituted the verb to decide with the verb to indicate.

c. The general expenses of the contractor should not exceed 14% of the cost of the works. This proposal was accepted by the contractor.

d. The government should be consulted beforehand for all purchases or subcontracts over $2,000. This proposed modification was not accepted by the contractor.

Compiled from: *G.P.D.*, Fourth Constitutional Assembly, Minutes of the Assembly of April 2, 1925, Vol.D, pp.804-808.

Before closing this presentation on the internal opposition to the contract it must be remarked that although there is no direct evidence, there are indirect indications that the N.B.G. sometime before April 1925, (i.e the ratification of the contract) made a trade off and perhaps a secret deal with The Bank of Athens. Apparently, the Bank of Athens appears to have become more compliant with respect to the establishment of the new electricity concession. And on its part the N.B.G. stopped inflaming public opinion and the Press against the water works contract.[52] Thus, what we see here is an example of how domestic banking antagonists exploited their connections with foreign capital in order to enhance their position of dominance. This displays the intricate internal and external dynamics that developed during the period and which have been ignored by the literature.

1.5. The Post Ratification Amendments

That the contract passed through the sieve of the National Assembly is testimony to the limits placed on the discretionary power of the government.[53] However, the latter had ways to escape from this kind of control. And indeed, it used these powers intelligently regarding the sensitive issue of the water management company to be set up by the concessionaires. No wonder that public opinion often came to identify the penetration of foreign capital with 'dark secretive procedures'. The story was as follows. Only six days after the ratification of the water works contract, the government passed a ministerial decree which stipulated that: i) for a minimum period of ten years -instead of five years as specified in the ratified contract- the state would not be allowed to buy out the concession to be set up by Ulen & Co. and the Bank of Athens; and ii) in the event that the government made a new issue of securities in order to provide funds for an early redemption of the loan, Ulen & Co. and The Bank of Athens would have the right and option to purchase these new securities to such an amount as would produce funds sufficient "for the redemption and retirement of all the bonds then outstanding". By acting automatically the two lenders would continue to operate the Societe des Eaux until 1952 "and thereafter until all the [new] bonds have been amortised and paid in full".[54] It is obvious that these 'improvements' had been promised by the government to the concessionaires before signature of the contract in December.

In addition, in the next few months following ratification, the cabinet approved 'by special resolutions': the statutes of the Concession to be set up to operate the Athens water system;[55] as well as the procedure for estimating the indemnity to be paid to the concessionaires in the case that the government would redeem before 1952 the loans to be furnished by the constructor and The Bank of Athens.[56] The terms reflect the inexperience, dependent status and low bargaining power of the Greek state in the twenties.[57]

1.6. From Contract to Implementation

In the following pages we will examine how the new Athens water system was financed, constructed and operated. This illustrates salient features of Greek dependence and socio-economic backwardness. Nevertheless, it must not be overlooked that despite its poor terms, the narrowsightedness of Greek politicians, the inefficiency of the administration, the selfishness of Greece's financial supervisors and the arrogance of Ulen & Co., the technical goals set were largely attained.

1.6.1. The financing (or to put it simply the high politics of finance)

Two foreign and five domestic loans amounting to a total of $14,500,000 were raised by the government in connection with the building of the new Athens water system. (Table 3) The sum borrowed for the 'water works', at $ 14,500,000 was a significant figure for the small Greek economy. (Table 4) Originally, the government had intended to rely exclusively on foreign finance. However, this did not prove possible because the total of $11,000,000 provided in 1925 by the concessionaires did not suffice. By 1930, at which time it became apparent that the scheme would require more funds than initially estimated the capital market of the U.S.A. had for all effective purposes become a closed preserve for foreign issues. Under the circumstances the government resorted to the domestic market for additional funds. (For the loans raised in this manner see again Table 3). In this respect, the Athens water scheme was typical within the Greek context. The remaining five other projects undertaken on an agency basis during our period of study followed the same pattern of mixed-financing.

Table 3

Debt Incurred by the State for the Athens Water Project

I. Loans Provided by Ulen & Co. and the Bank of Athens		
Year	**Nominal Amount**	**Real Interest Rate**
1. 1925 (long-term loan) 2. 1925 (short-term loan)	$10,000,000 $1,000,000	9.4% 9.4%
TOTAL in $11,000,000		

II. Domestic Loans Provided by Public Institutions			
Year	**Institution**	**Nominal Amount**	**Real Interest Rate**
1. 1930	(Deposits and loans dept)	100,000,000 drs.	7%
2. 1930	(Post Savings Office)	90,000,000 drs.	8%
3. 1930	(Post Savings Office)	25,000,000 drs.	8%
4. 1931	(Post Savings Office)	25,000,000 drs.	8%
5. 1931	(Post Savings Office)	30,000,000 drs.	8%
TOTAL in drs. 270,000,000			
TOTAL in $ 3,500,000			
GRAND TOTAL (I)+(II) in $14,500,000			

Compiled from: G.Haritakis (ed.),Economic Yearbook of Greece for 1932, (Athens, 1933), pp.564-569. Also D. Stephanides, Foreign Capital Inflow and its Economic and Political Consequences, (Salonika, 1930), pp.235-238.

Table 4

The Significance of the Water Debt

1. Water works loans	$14,500,000
2. Annual average of Greece's exports (1925-1932)	$79,700,000
3. Annual average of the ordinary revenues of the Greek state (1925-1932)	$99,600,000

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens, 1930), pp.199,275. Also, G.Haritakis (ed.), Economic Yearbook of Greece for 1939, part II, pp.39,171.

Table 5

British* and American Participation in the Long-term Loans Raised by the Greek Government: 1922-1932

1. Total nominal value of the foreign loans raised by the Greek government (1922-1932)	£39,300,000
2. Participation of Hambros* in (1)	£16,870,960
3. Participation of American Capital in (1)	£10,500,000
4. Total nominal value of the foreign loans raised for public works after the flotation of the $10,000,000 Athens water loan (July 1925-1932)	£14,000,000
5. Participation of Hambros in (4)	£ 6,000,000
6. Participation of American capital in (4)	—

*All of the flotations in Britain for the Greek government were undertaken by Hambros Bank.

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp.513-528.

Table 6

Securities Assigned for the Service of the Athens Water Loan

I.	Surplus revenues assigned to the service of the public debt and subject to the control of the I.F.C.*
II.	A first lien charge or mortgage upon the existing water supply system, and the works to be constructed
III.	A temporary 8% tax on the net incomes from buildings in the Athens area for the duration of the construction works.

*By surplus revenues is meant those government revenues assigned to the I.F.C. that remained, after the I.F.C. met the payments for the service and amortization of the old gold loans and the First Refugee Loan. That is surplus revenues = Total revenues assigned to the I.F.C. - the payments for the service and amortization of the old gold loans and the First Refugee Loan. These amounted to roughly £3,800,000 on an annual basis in the mid twenties.

Compiled from :information in the Athens Water Works contract and the contract for the First Public Works Loan.

a. The $10,000,000 Athens Water Loan

The $10,000,000 loan furnished jointly by Ulen & Co. and the Bank of Athens provided the bulk of the funds for the project. This 'American loan' was the first non-railway public works foreign loan. Through it the newly established Hellenic Republic saught in a naive way to detach itself from the rising financial hegemony of Britain over Greece. However, this experiment failed in that a chain effect was not established. During the twenties American contractors were assigned two more important projects (i.e. the reclamation of the Vardar and Struma valleys). But, primarily as a result of the timely interventions and manoeuvring of Hambros American capital did not participate in the loans raised for (these or other) infrastructure works. (See below Table 5. Also, for details on this phenomenon see below Book II, Section III, Chapter 2.)[58]

Indeed, as will be delineated in the following pages, the British Treasury did not view the conclusion of this first and only American infrastructure loan with sympathy.[59] Regarding Hambros, its attitude was that it should be the banker par excellence of the Greek state. (As will be explained below Eric Hambro made an offer to finance the scheme which the government rejected). The $10,000,000 loan provides an example of the kind of official and unofficial supervision London was practicing over Athens. But, before looking into the terms of this loan it must be noted that strictly speaking it was not purely an external loan as half of the funds were provided by a bank established in Greece. This was not an unusual practice in Greece during our period of study. This peculiarity signified in each case, on the one hand the unwillingness of foreign capital to undertake alone the risk of investing large sums in Greece, and on the other the financial strength (cum tight links with foreign capital) of the local banking establishment.

The terms of the $10,000,000 loan

The $10,000,000 water works loan was raised in order to cover the cost of construction of the new water system. The formula agreed upon was that immediately after the ratification of the contract by Parliament, the government would issue 10,000 sinking fund gold bonds of a total nominal value of $10,000,000. The contractor (i.e.Ulen & Co.) and the Bank of Athens would be obliged to buy these bonds in four equal annual installments. They would be taken up by them at the price of 85. Thus, the amount to actually reach the hands of the state was only $8,500,000 and not $10,000,000 which was the nominal value of the loan.

This was a medium term loan. All of the bonds issued would mature on April 1 1952. Before 1930 -which was the planned date for the completion of the project- no amortization payments would be made. Or, put otherwise, a ten year grace period was granted. From 1930 onwards the government could fully repay the loan if it so wished.[60] Indeed, at the time of the signing of the water works contract in December 1924, it was apparent that Ulen & Co. and The Bank of Athens had struck a very good financial deal: First, there was an international guarantee because it was stipulated that the I.F.C. would intervene in the service of the loan "in the same manner and form as for the other national debts which were placed under its control".[61] Second, more than ample security was offered. The annual service of the loan did not surpass $1,002,5000 (i.e. roughly £207,425) and the surplus revenues of the I.F.C. alone had an annual yield of £3,800,000. Regarding the 8% tax imposed on the net incomes from buildings in the Athens area (see Table 6 above) it must be noted that it worked at cross purposes, indicating once more the contradictory nature of Greek economic policy and the lack of even elementary economic analysis running through it. This tax must have certainly discouraged the building trade and house construction at time when the refugee influx had created pressures for new houses. It also put the burden on the lower and middle incomes rather than on the higher brackets whose incomes were not associated with rents.[62] Third, and most important, with an issue price of 85 and a nominal interest rate of 8% the real rate of interest of the loan amounted to 9.4%.

Effectively ,in retrospect the Athens water loan had the highest real rate of interest to be charged on a foreign loan during 1922-1932. This rate also compared unfavourably with the infrastructure loans that the government had raised in the past as well as with the domestic interest rates charged in Greece during 1925. (Table 7 below).

The state of the American financial market cannot be held responsible for the fact that such a high real rate of interest was to be charged for the Athens Water Loan. For 1925 was not a year of capital stringency-tight money. During that year the discount rate in the U.S.A. was 3.4%, and there was a large number of new foreign issues.[63] (Table 8 below). The explanation for the high real rate of interest is strikingly simple. To begin with it must be noted that this loan was private and that as a general rule loans of this category were more expensive for the borrower than public flotations. In addition, another factor of importance was that for the American capital market, Greece was basically a newcomer, a terra incognita. The only Greek loan which had as yet been partly raised in the U.S.A. was the First Refugee Loan. The participation of an American banking firm in that instance was attained **largely through British initiative.**[64] In the last analysis, the high real interest rate charged was the price that the government had to pay in order to start the project at once and gain 'independent' access to the fastly growing in importance American capital market. (The word independent is used to signify the absence of the tutelage of Hambro).

Table 7

I. Past Infrastructure (Railway) Loans	
Loan Title	**Real Rate of Interest**
i. 170,000,000 gold francs loan of 1884	7.1%
ii. 155,000,000 gold franc loan of 1889	5.4%
iii. 56,200,000 gold franc loan of 1902	5 %
II. Interest Rates In 1925	
i. Official discount rate in Greece	8.9%
ii. Internal loans raised*:	
450,000,000 gold drs. loan	1.5%
2,000,000 drs. Volos Courthouse loan	6 %
100,000,000 drs. Tekton loan	12 %

*Real rate of interest

Sources: For the railway loans see D. Stephanides, Foreign Capital Inflow and its Economic and Political Consequences, (Salonika, 1930), pp.179-184,200-205. For the official discount rate in Greece, see: G.Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens,1930), p.32. For the internal loans, see: G.Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp.544,555.

Table 8

New Foreign Capital Issues in the U.S.A.

Year	Number of New Issues	Total Value in millions
1924	120	$1,217
1925	164	$1,316
1927*	265	$1,577

*1927 was the peak year for new foreign capital issues.

Source: Royal Institute of International Affairs, The Problem of International Investment, (Oxford, 1937), p.171.

The government engulfed itself in contrived rationalizations instead of coming up with the simple and true statement that it had no other option. The official story it presented in public was that the high interest rate was a blessing in disguise which would permit it to rid itself of 'foreign' interests at an early date. Namely, the government claimed that it had accepted this 'onus' in order to lure the contractor and the Bank of Athens to accept in return the condition that it would be able to redeem the loan and buy out the rights of the management company to be set up only five years after the flotation of the loan.[65] But as already noted above this condition was short-lived. Six days after the ratification of the water works contract the right of the government to buy out the concession became ten years. Moreover, Michalakopoulos in trying to defend the loan and save face in Parliament purported that "on the whole the terms of the Water Loan were not more onerous than those of the First Refugee Loan" because it had an early redemption date and a grace period, it was to be granted in tranches, and the bank commission charged was low.[66] (Table 9).

Important as these advantages may have been, they could not outweigh the simple fact that the margin of difference between the real rates of interest charged on these two contemporaneous Greek loans was substantial. The arguments offered by the government sounded even at the time ridiculous. In the end the decisive factor, which forced even the staunchest critics of Michalakopoulos to give their seal of approval, was the urgent necessity to build the scheme. Infact, inspite the intense clamour over the terms of the loan only one minor deputy dared to suggest that the scheme be postponed for later. Whereas the majority of the deputies had accepted Alexandros Papanastassiou's view that "Though the terms of the loan are onerous, the postponement of the Athens water scheme would be even worse for Greece."[67]

Table 9

	First Refugee Loan	Athens Water Loan
Nominal Amount	£12,300,000	$10,000,000 or £2,070,000
Bank commission-expenses	6.75%	0.25%
Nominal Interest Rate		
Real interest rate*	8.7%	9.40%
Tranches	1	4
Redemption Period		
Earliest redemption date	12 years	5 years
Grace period	-	10 years

*In estimating the real rate of interest the bank commission and expenses have been included.

Source: A.Angelopoulos, "The Consequences of Foreign Borrowing on Greek Public Finances", in Review of Social and Public Economics, Athens, 1934, p.175.

b. British and French Opposition to the Loan

The Greek government after silencing domestic criticism faced the challenge of warding off British and French opposition. In Britain, opposition to the $10,000,000 loan sprang from two sources: Hambros and the Treasury. The manner in which Hambros' tried to impede Athens from raising an American loan sheds light on the tactics this merchant bank employed in order to maintain and enhance its dominating position in Greek finance. Indeed, Hambros was quick in reacting to the news of the agreement for the Athens water scheme. Almost immediately after the signing of the water works contract, Sir Eric Hambro, head of this firm, with the assistance of his American collaborator and co-issuer of the First Refugee Loan, A. Speyer, tried to persuade the Greek government to cancel the Athens Water Loan. The criticism expressed by these two bankers was more articulate than that voiced inside Greece.[68] It touched upon issues that were not brought up either in the local press, nor discussed in the National Assembly. To begin with, they raised the point that the poor terms of the Athens water project proved that the international financial community was not willing yet to absorb a large flow of Greek government bonds.[69] The fact that half of the amount was raised by a bank established in Greece corroborates the statement of Hambros and Speyers. In addition, they also expressed concern that the Athens Water Loan bonds, because of their high return to their holders, might seriously interfere with the market prices of the government bonds quoted on the international bourses, and as a result would "forever" damage the creditworthiness of the Greek government on the international capital market. This foreboding of Hambros and Speyers did not stem out of any altruistic interest in Greek affairs. On the contrary, they were motivated by self-interest. Hambros,was the most anxious of the two. Unlike Speyers who was a newcomer in Greece, his bank had ambitious future plans in connection with this country.

The not-so-secret wish of Sir Eric Hambro was that Greece should not rush into financial deals with other Banks and financiers. He desired that the government wait for his bank to undertake at a later date, under one package deal (of some £12-13,000,000) the financing of all of Greece's large infrastructure schemes! (i.e. the Athens water scheme, the land reclamation projects, road and railway building) It was on the basis of this expectation that Sir Eric suggested to the government to postpone the loan "for at least six or eight months in the hope that in the meanwhile Greece would be able to attain better terms." But, Hambro's plea fell on deaf ears. The response of the Greek officials to his proposal was: "Well,we must have water and do not care what we pay for it."[70] Once Athens made it clear that it had no intention of cancelling or postponing the loan, Sir Eric modified his 'strategy'. His aim became to restrict the freedom of the construction company and the Bank of Athens to place bonds on the market. Specifically, he demanded that the bonds of the water loan should not be offered for public subscription before January 1 1926, nor sold at a rate giving a higher yield than the market rate of the First Refugee Loan prior to July 1 1926. [71] By mid April, Ulen & Co. acquiesced to these two demands. The Greek government convinced it that if it did not yield on these points, Sir Eric might use his connections with the Bank of England and block the flotation of the loan altogether.[72] Clearly the government was trying to balance the situation by curbing Greece's dependence on Hambro without however provoking his wrath.

But, Sir Eric was still not satisfied. He continued to maintain that Greek credit would be seriously damaged as a result of the Water Loan. In early June the Greek press reported that

Hambros and Speyers were actively trying behind the scenes to **cancel** altogether the flotation of the loan.[73] The archival material substantiates the accuracy of these rumors. It provides evidence that Sir Eric Hambro since late January 1925, while trying directly to convince the government to cancel the loan, had also been concurrently extensively engaged in using his influence in official circles. He worked in two directions. First, he asked the League of Nations to issue a protest to the Greek government. However, the League refused to comply for the reason that this loan being of a productive character did not violate the Geneva Protocol of September 1924.[74] Second, through his contacts at the Bank of England and the Treasury, Sir Eric tried to persuade the British government to block the loan either by not giving its consent as was necessary under clause IV of the Paris Agreement, or to withhold its sanction that the I.F.C. assume control over the loan.[75]

The British government was as keen as Hambro to see the loan cancelled for it was envious of America's financial penetration in Greece. In addition, it feared that the loan would affect negatively the country's prospects regarding stabilization and the ability to punctually repay the existing foreign debt. But, at the same time, it was reluctant to play along with Hambro and exploit its rights under the Paris Agreement to block the loan altogether. British official circles wanted to avoid a head-on confrontation with the government of the U.S.A. for a scheme that as Roussin put it "appeared to be a sound one economically and financially".[76] Regarding the question of whether the I.F.C. would supervise or not the loan, the British Treasury (with whom the final decision lay) agreed completely with Hambros that the I.F.C. should not assume control over the service of the loan. Certainly, the Greek government had followed an unorthodox procedure. For, without seeking prior permission from the Commission, it had stipulated in the water works contract of December 1924 that the I.F.C. would assume control over the loan.[77] But, more importantly, the Treasury objected to the granting of I.F.C. supervision for reasons of principle. It believed that if the Commission undertook the responsibility of supervising new loans the Greek government would find it easier to embark on a foreign borrowing spree.[78]

Furthermore, the Treasury saw no reason why the Commission should become a stepping stone for the penetration of American capital in Greece. Characteristically, Niemeyer, went to the heart of the matter in stating that "Prima facie, there does not seem much reason why the

International Financial Commission should look after securities for the benefit of private American loans."[79] Thus, the Treasury outrightly refused to allow the I.F.C. to assume control over the $10,000,000 loan. As a result of this decision, the clause pertaining to the I.F.C.control in the water works contract became ineffective. In an indirect way -and without provoking a head front clash with the U.S.A., the British government in addition to defending its status quo and existing interests- created an unpleasant situation for the Greek government. For I.F.C control and supervision was something that Ulen & Co. and the Bank of Athens, had been keen on securing. (Without this guarantee, they feared that the general public in the U.S.A. would hesitate to buy the bonds when they would be offered for public subscription.)[80]

London gave its assent to the flotation of the loan, as was required under the Paris Agreement of 1918, in June 1925. By assent we mean that it allowed Athens to assign the surplus revenues of the I.F.C. as security for the loan.[81] Had these surplus revenues not been assigned as security it would have been impossible for the government to raise this loan. (That the government was informed of this affirmative decision of the British through a telegram which Hambros sent to the N.B.G. is one more testimony that this merchant bank had close connections with the British government and that it wanted Greece to know this.)

In return for being 'allowed' to float this American loan, Greece was asked to settle its war debt with Britain. Sir Otto Niemeyer declared that the Treasury had given its "consent" with the understanding that Athens would "become less dilatory" in the negotiations for the settlement of the war debt.[82] Once again, as was the case with the First Refugee Loan,Greece was reminded of the simple fact that her British supervisors expected something in return when they "allowed" the flotation of a foreign loan. The legacy of British control had become a well established fact.

Greece needed also the approval of France.[83] This however was not secured until mid July. The French were unwilling to give their permission unless it was explicitly agreed that the Ottoman debt, and not the water loan should have first charge to the surplus revenues assigned to the I.F.C. This request was not unreasonable because the Geneva Protocol of September 1924 had explicitly stated that the Ottoman debt would have priority to the surplus revenues over all other subsequent loans to be floated.[84] Once the contractor acquiesced to the French demand the only remaining issue to be faced before the flotation of the loan was the formal appointment of the Chase National Bank as fiscal agent.[85] This was arranged in late July, and the first tranche of the loan was granted a few days later. Michalakopoulos was no longer Premier as in the meanwhile, a coup d'etat had occurred on June 26, 1925. The new Premier, dictator Pangalos, during his first weeks in power indulged in publicly castigating many of the actions of his predecessors.(See Book II, Section I, Chapter 2 on Pangalos' fight against the contract signed by Michalakopoulos with the American firm The Foundation Co. for the drainage of the Vardar valley). Interestingly however, he did not breathe one word of criticism against the water works contract. Nor did he try to block the flotation of the Athens Water Loan. It is possible to discern an explanation for this behaviour. The National Assembly less than three months before the Pangalos coup had in a unanimous vote validated the water works contract. The dictator had usurped power with the silent assent of the National Assembly and during his early days in office did not want to antagonize it.[86] Neither did Pangalos have any reason to be too provocative towards the U.S.A. by attacking both American contracts. Moreover, he was close to J. Eliascos the General Manager of the Bank of Athens.[87]

Hence, the provision of the first tranche took place without any obstacles being raised by Pangalos. A small package of the 'water' bonds were placed on the Athens and Alexandria bourses during the second half of 1926. Few, if any bonds were offered in the City. The fears of Greece's supervisors that the market prices of the other Greek bonds on the international market would fall as a result of the water loan were not realized.[88] However, their premonitions were not all faulty. Indeed, after the flotation of the Athens Water Loan the Greek government met increasing difficulties in raising additional capital. But, the evidence indicates that this difficulty had more to do with the deterioration in the political situation and the war debt embargo which Britain imposed than with the Athens Water Loan.[89]

Retrospectively, the Athens Water Loan over the long-term did not prove to be such a bad deal for the Greek government. Three years after the completion of the works, in August 1935, the bondholders agreed to lower the nominal interest rate of the loan to 4%, and to extend the date for the full redemption of the bonds from 1952 up till 1985, (i.e. the rate of amortization was halved).[90] The government succeeded before WWII to arrange a rescheduling agreement, partly, because this loan had the most onerous terms of all the loans raised during our period of study.[91] However, it is also possible that The Bank of Athens -which still held a large part of the water bonds- agreed to a rescheduling in order to secure in exchange that the water management company it had set up with Ulen & Co. would be assigned the construction of an aqueduct that would further increase the supply of water by connecting Lake Marathon with the Souvala springs in Parnassos.[92] (The management company was actually assigned this project in 1938. See below 1.6.2, a.).

c. The Supplementary Loans for the Athens Water Project

In the water works contract it had been stipulated that in the event the $10,000,000 did not suffice for the construction of the works, Ulen & Co. and the Bank of Athens would secure an additional loan capable of covering the extra costs under terms to "be fixed in accordance with the conditions ruling the financial markets of the world at the time".[93] But, in 1930 when the need rose for additional funds, the concessionaires were not in a position to provide them. Thus, the government was forced to turn to the domestic market for supplementary financing. The five, drachma loans raised in May 1930 and in May 1931 by the Department of loans and Deposits, and the Post savings Office (equivalent to approximately $3,500,000) had a redemption period of only ten years. But they had the distinct advantage of having been issued at par. (See again Table 3) Their interest rate at 8% was lower than Athens Water Loan, and the bank rate in Greece during 1930-1931.[94] As these internal loans were not rescheduled during the thirties, after 1935 their terms in the long run compared unfavourably with those of the $10,000,000 loan.

Finally, besides raising drachmae loans, up to 1932 the government incurred one more debt with respect to the construction of the water system. This was the $1,000,000 five year credit furnished in 1925 by Ulen & Co. and the Bank of Athens in connection with the provisional works.[95] These works were undertaken, by Ulen & Co. during 1925 and 1926, in order to alleviate the water shortage problem until the completion of the new water system.[96] But, actually, a large part of these temporary works were still in use after the completion of the new network.

All in all, the debt incurred for the Athens water works amounted to approximately $14,500,000. This sum was equivalent to a little over £3,000,000, and was 31% larger than the debt Greece had originally estimated for building the water works. But in the last analysis what counts is that the new Athens water system was 'speedily' constructed. It is noteworthy, that the other five agency contracts undertaken during 1922-1932 were completed with substantial delay for the reason that the foreign loans provided for their implementation were relatively more inadequate in size, than the Athens Water Loan.

In conclusion, it is a central contention of this dissertation that we cannot isolate the economic from the political phenomena. Regarding the finance of the Athens water works there is ample evidence pointing to how international politics and cover activities of bankers and policy makers coalesced against the interests of weak and backward economies such as Greece of the interwar period.

1.6.2. The construction of the new water system

If we are to judge the new Athens water system in technical terms the verdict is that this scheme was a success story. (For a description of the works see below Table 10). Up till the completion of the artificial lake in 1931 it was not possible even for the contractor to maintain with any certainty that the estimated increase in the supply of water would be obtained.[97] Once the project was finished all doubts were erased. There was a tenfold increase in the supply of water. Modern standards of hygiene were established and the death rate from typhoid dropped by more than half! (See Table 11 below) However, the ascertainment that technically the project was satisfactory does not give us the whole story. It tells us nothing about the terms posed, and how in fact the construction was carried out. A close study of the facts shows that though the terms were onerous the conscientious manner in which the contractor undertook to construct the project made up for the basic weaknesses of the contract.

Table 10

Brief Description of the Works

i)	**The Marathon collection and storage reservoir.** This reservoir had a surface of 593 acres, and a volume of 10,8 billion gallons. For European standards it was a medium size artificial lake. Its principal claim to fame was that its 177 foot long barrage was made exclusively of marble.
ii)	**Aqueduct-tunnel system.** This was set up for conveying the water to the outskirts of Athens. From a technical point of view the aqueduct was the most difficult part of the project to implement. This was so because a 13,4 klm (8 mile) long water tunnel had to be constructed in order to connect the reservoir with the main aqueduct at Helidonou. (This remained the longest water tunnel to be constructed in Greece uptill the 1970's.)
iii)	**Purification plan.** This had a capacity of 15 million gallons per day.
iv)	**Distribution system.** This covered 20 sq. miles in area, and contained 600 miles pipeline.
v)	**House connection system.** Approximately 78,000 connections of the main system with specific houses were set up.
vi)	**Complementary infrastructure works.** These were: a road leading to the site where the reservoir was to be built, the installation of a power plant at Kastri, and a dock at the port of Chalkis.

Compiled from: R.W.Gausmann, Water For Athens, (Athens, 1940), pp.36,124-137.

Table 11

I. Per Capita Supply of Water in Athens*	
1924	2-2,5 gallons
1931	20-23 gallons

II. Death Rates from Typhoid in Athens	
1923	44 per 100,000
1934	14,2 per 100,000

*The figures have been estimated for a population of 88,000.

Compiled from: R.W.Gausmann, Water for Athens, (Athens, 1940), p.303. Also, Ministry of Foreign Affairs, La Grece Actuelle, (Athens, 1933), p.256. Also, R.W.Gausmann, "Brief notes on the Operation of the Athens water supply", (1935), pp.6-9.

a. The Terms as Agreed in the Water Works Contract

The water works contract was an agency contract of a cost plus type.[98] Theoretically, the Greek government could have assigned the project to Ulen & Co. on a "unit price" or a "lump sum" basis. However, neither of these two alternative types of agency con tracts was feasible. The reason for this was twofold: On the one hand, the Greek state machinery did not possess a technical staff capable of designing and knowing in advance, exactly what type of structures would be required, and how much their construction would cost. On the other hand, from the point of view of the builder a cost plus agency contract was preferred when investing in underdeveloped countries for it provided maximum safeguards and minimized potential risks.

The basic disadvantage for the government posed by cost-plus contracts was that the builder had no pressing incentive to economize on the actual cost of construction. The problem specifically with the water works contract was not simply that it was a cost plus agency contract, but that it was an onerous one. Namely : i) No upper limit was placed to the cost of construction.[99] ii) The contractor's general expenses could reach up to 17% of the cost of construction of the works.[100] iii) Ulen & Co. would not be penalized in the event that it: it poorly executed any part of the work; delayed to finish the project; or exceeded the estimated cost of construction. iv) The Greek government in its capacity as 'commissioning authority' had limited control over the contractor. Notably, in the event that the government did not approve of the plans and the estimates prepared, it could merely "indicate" to the builder the modifications it desired. This last stipulation was vague as the latter would not be obliged to adopt the changes suggested by the government. Moreover, the administration of the construction works was exclusively "within the control and jurisdiction" of the contractor.

Nevertheless, the government managed to exercise some degree of control in that it obliged Ulen & Co. to accept the following terms. First, to appraise the government of purchases of materials or subcontracts that were above the amount of $5,000, (the twin aim of this stipulation being to debar the contractor from indulging in unwarranted waste and to ensure that as many Greek firms as possible would be awarded large subcontracts). Second, if Greek materials were available on equal terms with foreign materials they would be preferred. Third, whenever possible Greek citizens would be employed in the carrying out of the works and the contractor would bring to Greece only such experts and specialists as would be necessary for the proper administration and execution of the scheme.[101] The government imposed these clauses because in its own naive way, it wanted to assure that the maximum multiplier effect would be present for the Greek economy.

Table 12

Cost Plus Contracts for the Large Infrastructure Schemes of the Interwar Period

Purpose		Name of Firm	as % of Construction Cost
1. Athens water supply	22.12.1924	Ulen & Co.	32.7/24.7[1]
2. Salonika reclamation	6.10.1925	The Foundation Co.	34.5
3. Railways improvement	27.8.1925	Societe Commerciale de Belgique	29
4. National road system	18.5.1928	P.G. Makris et.al[2]	25
5. Strymon reclamation	8.12.1928	J. Monks & Sons-Ulen & Co.	21.6
6. Thessaly reclamation[3]	17.12.1929	H. Boots & Sons	19
7. New Water Works	19.7.1938	Societe des Eaux[4]	< 14[5]

[1]The general expenses and the fee were 32.7% of the estimated cost of the works. However, because: a) the fee was fixed, b) the level of general expenses actually realized was only 11.1% of the cost of the works, and not 14% of the cost of works (as was stipulated in the ratified contract), the general expenses + fee amounted to only 24.7% of the actual cost of the works.

[2]This firm though Greek was the agent of Shell in Greece and had close connections with Hambros. Also although this contract was a 'lumpsum contract it was actually carried out as a cost-plus contract.

[3]The terms under which the scheme was to be carried out were agreed in 1929, but the reclamation of the Thessaly valley actually began in 1937.

[4]This firm was jointly operated by Ulen & Co. and The Bank of Athens.

[5]It is not possible to state the exact percentage agreed. This is so for the reason that the cost of the works were broken down into nine categories of expense. It was then stipulated that the general expenses would be estimated in the following manner: a maximum of 9% on six of the categories of expenditure of the cost of works plus a maximum of plus a maximum of 5% on the remaining three categories. As for the fee it was stipulated that it would amount to 5% of the six categories and 2% on the remaining three categories. Thus the only definitive comment that can be made is that the amount paid by the government for general expenses and fee was less than 14%. See Athens water works contract: articles 15,16,17,and 18.

Compiled from: the contracts for all the projects mentioned. See the relevant chapters.

The immediate reaction of the public and the opposition to the terms pertaining to the construction of the scheme was negative.[102] The government was castigated for agreeing to pay such a high fee and general expenses. These two together amounted to 32.7% of the estimated cost. This was indeed the second highest general expenses cum fee payment to be charged for a public work scheme during 1922-1932. (See Table 12 above). However, regarding the general expenses it must be noted that at the time i.e. during 1925, a rate of 17% for general expenses was not unheard of. For in 1922, the French company which began certain improvement works to the port of Pireaus charged for general expenses the same rate as Ulen & Co.[103]

As can be seen from part II of Table 2 above the modifications proposed by the parliamentary committee regarding the construction terms served basically two goals: First, to increase government control over the construction of the works. Second, to decrease the cost of the project. The contractor, insofar as government supervision was concerned refused to make any concessions. However, it agreed to lower the level of general expenses from 17% to 14% of the cost of construction. The parliamentary committee had anticipated that as a result of these lower general expenses awarded, Ulen & Co. would prefer to employ Greek engineers because they could accept low salaries. It was argued that employment would rise, Greek engineers would be trained, and the government indirectly would be able to augment its supervision over the project. However, retrospectively, the lowering of the level of the general expenses did not have the desired result in respect to indirectly increasing 'supervision' of the project or providing jobs for Greek engineers. Whereas, needless to say the majority of the 'unskilled' labour employed for the works were Greeks.

From the discussions in newspapers, the parliament, articles in journals a recurrent theme emerges. It becomes evident that the state and the elite of Greece, were united in their desire to achieve through the public work schemes full employment and a transfer of technology. Of course, the state lacked a coherent economic development policy. Nevertheless the basic recognition of the need to develop existed. This was an undercurrent theme that resurfaced during the public debates held regarding the construction of social overhead capital projects.

The water works contract compared unfavourably with the other agency contracts signed during 1922-1932. (See again Table 12). Indeed, in an ironic way, both the worse and the best contracts to be signed during the interwar years concerned the Athens water system. For the contract which the government signed in July 1938 with the Societe des Eaux (i.e. the water management company set up by The Bank of Athens and Ulen & Co.) indeed was the most advantageous cost-plus contract concluded prior to WWII.[104]

This 1938 contract was for the construction of the first section of an aqueduct to connect the Souvala springs (at Mount Parnassos) with the Marathon lake. This new project chronologically falls outside the scope of this dissertation. However, it is of interest to us all the same because it serves as a point of reference for purposes of comparison.[105] Apart from the fact that the level charged for general expenses and fee was low, this new agency cost plus contract had a number of other important advantages as well, such as that: i) if the cost of construction surpassed the amount agreed in advance, the contractor would not receive on the surplus 'cost' the percentage amounts stipulated for the general expenses and the fee; ii) if the quantity of materials used exceeded those fixed in advance the additional cost would burden the contractor; iii) the builder would be obliged to carry out the modifications to the final plans which the government would indicate; iv) the approval of the government would be necessary prior to any purchase over $660. All these stipulations resulted in a stricter control over the builder than was the case with the Athens water scheme. By 1938, as a result of the experience gained in connection with the Athens water contract (and the other infrastructure schemes that had started in the meanwhile), the government had both the necessary expertise and the bureaucratic/technical infrastructure in order to assert itself. It was able to 'determine' in advance the exact cost of the works. Notably, shortly thereafter, the government dropped the practice of concluding cost plus contracts altogether and began to prefer the more advanced forms of agency contracts i.e. the "lump sum" or "unit price" contracts.

To repeat, though it is obvious that the terms in the 1925 water contract were indeed heavy, we must also take into consideration that the circumstances under which it was concluded were unfavourable for the government. On the one hand, its state machinery lacked experience with such projects, and on the other the conditions under which foreign capital could be procured were narrowly circumscribed.

b. The Actual Construction of the Project

Inspite of a number of weaknesses the building of the project took place along satisfactory lines. Though the government did not always agree with the contractor no major dispute broke out [106] Moreover, the actual amount of Ulen's general expenses reached only 11.1% of the realized cost of the works. This figure was lower than the amount allocated in both the original and the ratified water works contract (see above Table 12). In retrospect the fixed fee of $1,200,000 was not as onerous as it initially appeared to be. This fee was equivalent to 18.7% of the estimated cost, but it amounted to only 13.7% of the realized cost of the works.

Considering that this was the first large infrastructure scheme to be undertaken after WWI, the performance of Ulen & Co. was outstanding. Infact, the divergence between the actual and the realized date of completion, cost of construction, and performance of the works was small compared to the other infrastructure projects undertaken within the framework of indirect foreign portfolio investment during our period of study.[107] With respect to the time of completion there was a delay of one and a half year only, the actual date the project was finished being 1932.[108] Regarding the cost of construction it is noteworthy that expost, the failure to place an upper plafond or to impose a financial penalty on the constructor, was not of great significance. This was so because the actual cost of construction did not exceed more than 126% of the estimated cost. (This was a low figure for the standards of the day). Indeed, if we deduct the expenditure for the house connections which had not been accounted for when the estimates had been made the actual cost of construction was equal to 117% of the estimated cost. (See Table 13). Thus, overall the realized cost of construction compared favourably with the estimates that had been made by Ulen's antagonists. (See Table 14). The "ability" of Ulen & Co. to adhere to its estimates is manifested also in the case of the provisional works. (See Table 15).

Table 13

The Cost of Construction of the New Water System*

1. Reservoir and dam	$1,580,545
2. Aqueduct and Boyiati tunnel	$1,922,378
3. Siphon line	$ 336,726
4. Purification Plant	$ 335,235
5. Distribution System	$3,277,619
6. House connections	$ 786,500
7. Miscellaneous permanent works	$ 92,221
8. Temporary construction**	$ 455,950
A. Total cost of construction	$8,786,776
B. Total - item(6)	$8,000,276
C. Estimated total cost of construction	$6,426,000
D. (C) as a % of (B)	125

*No account is taken of the general expenses, the fee granted to the constructor, depreciation, insurance, and miscellaneous expenditure. If all these are taken into account the total expenditure actually realized was $11,289,162. [= As we will see in the next section the general expenses that the contract allowed to the constructor were up to 14% of the total construction cost]. However Gausmann in his accounts puts under the heading "general expense" the sum of $940,544 which amounted to only 12% of the construction cost.

**Under the heading of temporary construction are the infrastructure works that were considered necessary such as: the construction of highways and roads leading to the reservoir, the power plant at Kastri, the building of a dock at Chalkis, and the camps set up for the workers at the construction site.

Source: Gausmann, Water for Athens, p.307.

Compiled from: information in R.W. Gausmann, Water for Athens, (Athens, 1940), pp.299-301,307-308; and *G.P.D.*, Minutes of the Assembly of March 23 Session of March 23 1925, p.620.

Table 14

Estimates for the Cost of the Construction of the New Water System[1]

1A. Ulen & Co.(estimate)	$ 6,426,000
1B. Ulen & Co. (realized)[2]	$ 8,000,276
2. A.H.D.C.[3]	$ 8,990,000
3. Siemens	$10,716,000
4. Holchman	$12,000,000

[1]The general expenses and the fee are not included in these estimates.
[2]The cost of constructing the house connections is not included because the decision to build them was taken during the construction of the works.
[3]American Hellenic Development Company, i.e. MacArthur.

Compiled from: *G.P.D.*, Minutes of the Assembly of March 23, pp.610-611,620.

Table 15

The Total Cost of the Provisional Works*

A. Estimated cost	$850,000
B. Actual cost	$973,000
(B) as a % of (A)	114

*General expenses and fee included.

Compiled from: R.W.Gausmann, Water for Athens, (Athens, 1940), p.289.

Of course, it may be argued that the actual cost of the works could have been less than the estimated. This was an argument that was expressed by the representatives of the Chamber of Greek Engineers. The latter accused the contractor for not saving sufficiently on the use of expensive machinery. Undoubtedly, the contractor by purchasing expensive machinery from affiliated companies in the U.S.A. could in an indirect manner gain a commission. The same was true with the leasing of machinery. Moreover, it is clear that the major input into the scheme i.e. the iron cast pipes were bought in the U.S.A. Whether the price paid for the pipes was the best that could have been attained is a question we cannot answer.[109]

As already noted from a technical point of view the new water system was a success. But, in 1925 no one could be certain that this would be so. The anxiety over the technical feasibility of the project was reflected in the debate in Parliament. Characteristically, in recommending the project to the National Assembly, the parliamentary committee did not fail to point out that it reached this decision "though no definite proof existed that the water works would solve securely and absolutely the water shortage problem.[110] Indeed, the unease over whether the reservoir would actually fill up eventually spread to the engineers of Ulen & Co. Statistics of rainfall levels were lacking and by an unfortunate coincidence during the first two years of the construction of the project due to adverse hydrological conditions the measured rainfall and runoff was unusually low. This situation did not pass unnoticed, and as a result there was plenty of adverse criticism against the scheme. Not surprisingly, the press at the time tried "to inflame" the public against the company. Among the cartoons that appeared in the newspapers one depicted the company as offering water from a medicine dropper.[111]

The worries were dissipated on June 73 1931 when for the first time water flowed into Athens from the Marathon reservoir. Luckily, by this date the reservoir had filled, which meant that "even if there was no drop of rain there would be water for Athens and Pireaus for three years".[112] From this point onwards, the performance of Ulen & Co. was judged on the basis of how it managed the new Athens water system. But, this subject belongs to the next section.

1.6.3. The concession

The "Societe Anonyme Hellenique des Eaux des villes d' Athenes-Piree et Environs" was set up by Ulen & Co. and The Bank of Athens in October 1925. Practically no government supervision was established over it. (The only issue over which the government had some measure of control over the company was the determination of the water rates). Its purpose was to run the Athens water system (i.e. to collect and distribute water, as well as to maintain and improve the system). Its duration was fixed at 27 years. However, ipso jure the concession would be prolonged thereafter for as long as it took the Greek government to repay its debt towards the Bank of Athens and Ulen & Co. (i.e. the two dollar loans which amounted to a total of $11,000,000). Upon the complete amortization of the loans in 1952 or thereafter, the government would take over the Societe without paying an indemnity of any kind. But, if the government wanted to take over the management company before the expiration of the concession in 1952: it would have to wait until 1935 and in addition to redeeming the debt in full, it would also have to buy out the concessionaires. In reality, the Societe continued to operate under 'foreign control' for long after 1952. It was finally taken over by the Greek state in the seventies.

The Societe des Eaux (as it was called in brief) together with the General Hellenic Electricity Company which was founded in 1925 by Power & Traction, were the largest public utilities company to be set up in Greece before WWII. Until 1926, the management of the existing water system had been in the hands of the municipalities of Athens and Pireaus.[113] Both municipalities had charged miniscule flat rates. Furthermore, the collections of the water rates had been lax and for years there had been large deficits in the operation of the water system. Reportedly, there existed a large "free list" of persons who because of their government connections were exempted from the obligation of paying their bills. Also those who did not pay their bills did not suffer any consequences.[114] Thus, the immediate problem facing the concessionaires was to make acceptable to the public the principle that they would have to purchase their water on a "no money-no water" basis. Moreover, for the first five years of its operation, the Societe des Eaux was "obliged" by the government to collect from house owners in the area a 8% extraordinary tax on the 'theoretical (fictional and real' incomes accruing to them from their houses). The purpose of this tax was to ensure the smooth payment of the interest charged on the two loans provided by Ulen & Co. and the Bank of Athens. Considering that this tax was paid for the duration of the building of the new water works, (i.e. prior to the increase in the water supply) it is not surprising that it was highly unpopular with the public.

Nevertheless, as is obvious from the press, and the contemporary primary material that the Societe des Eaux inspite of the tax was never as unpopular as the General Hellenic Electricity Company.[115] The latter was granted scandalous terms, and indeed, at those times when the public became exceedingly intolerant and antagonistic towards the electricity Concessionaire the British fleet by coincidence would pay a visit to the port of Pireaus. Whereas it had never been necessary for the American fleet to pay a visit in order to soothe the opposition against the Societe des Eaux. Notably, often in cartoons the British company Power and Traction (which was the major shareholder of the General Hellenic Electricity Company) would be depicted as a large beast(usually a bear) and by its side would be a smaller beast with the inscription "Ulen".[116] The other major problem, aside from the "hostility" of the public, which the Societe des Eaux faced during its first years of operation was that there were no maps or plans showing all of the existing water system.[117]

The Societe des Eaux expanded fastly. When it was set up it served 17,000 households. The taking of water from the new water system was compulsory. As a result of this, and the increase in the size of the Athens area, by 1940 the number of households connected with the new water system amounted to 117,000. The management company by 1934 had already become large concern with a little over 1,000 employees.[118] However, eventhough the Societe des Eaux supplied water to the majority of the Athenian households, installed water metres and duly collected the water rates, its revenues failed to reach the estimated amounts. It is clear that the government was intent on not allowing the Societe to impose the rates which would have been appropriate from a strictly economic point of view. It acted thus, out of fear that the public would accuse the government for following a 'reactionary' economic policy under the instigation of foreign economic interests. Thus, though it had been estimated in 1924 that the Societe's annual income (gross receipts) would amount to 200,000,000 drs. a year, this was far from being the case.[119] Indeed, they started off at 10,500,000 drs. in 1926 and by 1938 inspite of their steady increase they had reached only 169,000,000 drs. In contrast, the operating expenses of the company declined impressively over the years as a percentage of the gross receipts of the company. In 1926 they amounted to 132% of the receipts, by 1931 they were 86%, and by 1935, they had declined to 36%.[120]

Unfortunately, the amounts which remained after the deduction of the operating expenses and the profit to be awarded to the "owners" of the Societe did not suffice for both the maintenance of the works and the smooth repayment of the two dollar loans. Thus, in the end the larger part of the burden for the repayment of the loan rested with the state. Taken to an extreme, it could be argued that in a narrow sense the loans **raised for the creation of the new water system were not expost productive because due to the intervention of the government** they failed to generate an adequate income for their repayment.

Before closing the discussion on the concession, I would like to note that during the thirties the state as a result of its policy of 'economic nationalism' and its experience was able to lower the profit rate that accrued to the concessionaire. Namely, in 1935 the guaranteed annual fee of 7% 'of the net amount of all revenues and sums collected or received by the Societe' was lowered to 4% in order to assist the government to meet the annual service of the two loans that had been raised in connection with the project.

1.7. Conclusion

This very first experiment of foreign finance in the realm of infrastructure development in Greece was unique in many ways. It was the only instance in which a foreign portfolio investment materialized in a satisfactory manner. From our study it construes that it was a success story basically for two reasons. On the one hand the state knew exactly what it wanted and a detailed outline of the scheme existed beforehand. And, on the other hand the contractor had incentive to finish this scheme at an early date because it was eager to operate the concession. Another important factor which contributed to the 'early' completion of this project was that when the foreign funds dried out the domestic capital market was still in a position to furnish credit. Thus, the government was not forced to resort to the state coffers as was the case with the other projects when the flow of foreign finance stopped.

The story of the Athens water scheme also reveals how the formal and informal British control responded to the rise of U.S. interests in Greece. Formal control hesitated to take a polemical attitude whereas informal control (i.e. Hambros was more aggressive in its tactics). In addition, the events pertaining to this project testify that the I.F.C. was interested in supervising only the League of Nation loans. It is clear that it did not want to extend its presence in Greece by guaranteeing an American loan for public works. It is ironic, but the fact was that the Greek government wanted the I.F.C. to guarantee all of its foreign loans. Finally, this scheme uncovers the nature of alliances foreign business interests made with local capital and vice versa.

References

1. N.Kitsikis, "Το ιδιωτικό ξένο κεφάλαιο και η ανοικοδόμηση", ("Foreign Capital and the Reconstruction"), *Η Νέα Οικονομία*, Issue 4, (Athens, 1947), pp.191-196; also: G.Dovas, Η Οικονομία της Ελλάδος, (The Economy of Greece), (Athens, 1978), pp.30-46; and also: D. Stephanides, *op.cit.*, pp.235-238.

2. D.Gatopoulos, Ανδρέας Μιχαλακόπουλος: (1875-1938), ((Andreas Michalakopoulos: (1875-1938)), (Athens, 1947), pp.209-215.

3. As already mentioned the study of foreign (portfolio and indirect) investment in infrastructure is an unexplored field. A notable exception is the work of Pandelakis, *op.cit*, (1991).

4. The Electrification works of the Athens area were also completed prior to 1932 but this project was however a pure direct investment, i.e. the construction cost burdened directly the contractor and not the government.

5. These sessions were held on February 7; March 18,19,20,23,24,27; April 2,4, 1925.

6. Library of the Athens-Pireaus Water Co.: R.W.Gausmann, "Brief notes on the operation of the Athens Water Supply", (Athens, May 1935), Paper prepared for the American Waterworks Association.

7. For a vivid description of Athens transformation, see: G.Kairofylas, Η Αθήνα και οι Αθηναίοι, (Athens and Athenians), Vol.II, (Athens).

8. R.W. Gausmann, Water for Athens, (Athens, 1940), p.62.

9. The government in 1900 signed a contract with a foreign firm for the implementation of the first solution. However, it was not ratified because the National Assembly was not convinced that the scheme would be technically and financially feasible. In 1914 an international tender was announced for either solution. However, it had no tangible result because in the meanwhile wwi broke out. Sources: Encyclopedia Papyrus Larrousse (Greek edition, Athens, 1963), Vol.1, pp.713-714). Also: *G.P.D.* Fourth Constitutional Assembly, Vol.D, Minutes of the Assembly of February 7, 1925, p.219,223 and Minutes of the Assembly of March 20, 1925, p.572; and also: *G.G.*, First issue, Folio 173, June 27, 1914, Law 283 of June 26, 1914.

10. Due to the water shortage crisis in the summer of 1923, the government took the emergency measure of temporarily redistributing a large number of refugees in the countryside. Source: D.Gatopoulos, *op.cit.*, p.201; also, N.B.G./H.A., XXV Public Works, Γ' Water Works, File 19, Water shortage: The Mayor of Athens to the Governor of the N.B.G., June 11 1923.

11. History of the Greek Nation, *op.cit.*, p.302.

12. *Ελεύθερον Βήμα*, December 16 1924.

13. Gausmann, (1935), *op.cit.*, p.9.

14. Andreas Michalakopoulos, Κοινοβουλευτικοί Λόγοι, (Parliamentary Speeches), (Athens, 1964), Vol.B, p.77; also: G.Daphnes, *op.cit.*, p.269.

15. For the fact that the Bacon, Ford and Davis study was a remarkable achievement, see: Gausmann, (1940), *op.cit.*, pp.78-79. Reportedly this study was based on a report prepared by the Greek engineer Th.Yennidounias in 1918. Source: *G.P.D.*, Fourth Constitutional Assembly, Vol. D, Minutes of the Assembly of March 23 1925, p.636.

16. No mention was made regarding a sewage system. Not because it was not needed, but because the state could not afford to cover its cost.

17. Dunn, *op.cit.*, pp.101-102.

18. According to article VI in the statutes of the Geneva Protocol of September 29 1923, the Greek government could pledge its revenues for a foreign loan only under the condition that the loan "was destined exclusively to improve the financial position of Greece, so as to prevent the depreciation of the exchange value of the Greek currency". Whereas, under the amendments made to the Protocol in "Septem ber 1924, it could pledge government revenues by way of security for a loan intended for "productive purposes". Source: B.G./T.A., Document 18/56: Report of the Financial Committee to the Council in 1924 on the proposed amendments to the Protocol of September 29 1923, Concerning the settlement of the Greek refugees. Geneva September 12, 1924.

19. Gatopoulos, *op.cit.*, pp.210-211. Also, *G.P.D.*, Fourth Constitutional Assembly, Vol.D, Minutes of the Assembly of February 7, pp.222-228.

20. For that it specialized in sewages, see: B.M./V.A., File 66, "notes for the reclamation works 1927-1928. For its importance as a firm and the fact that Ulen had a capital of $50,000,000, see *G.P.D.*, Fourth Constitutional Assembly, Vol. D, Minutes of the Assembly of March 19, 1925, pp.552-553.

21. For New York tunnel see: *Εθνική Οικονομία*, January 1925, pp.49-52. For a description of the various projects (e.g. sewages, railways, water systems) Ulen & Co. had undertaken by 1940 in the U.S.A., Bolivia, Urugay, Colombia, Brazil, and Poland, see: Gausmann, (1940), *op.cit.*, pp.315-316.

22. For this $10.000.000 railroad scheme Ulen & Co. accepted in partial payment $7.000.000 in 20 year 8% bonds of the Bolivian government. Source: Kimber, Record of Government Debts, 1923, p.126. For quotation, see: C.Lewis, *op.cit.*, p.372.

23. Ulen had interests in Turkey and Peru, had built port works in Columbia,and stockyards, tramways, gas and waterworks in Warsaw, and irrigation in Chile. Also, "Ulen and Co. usually worked with an associated group of bankers, financing and building public works throughout the world". Ulen was an unusual case in that during the early 20's American firms were not attempting to do much of the financing themselves. When they took government obligations for their work they usually arranged for a public issue of the bonds as soon as possible. Source: Lewis, *op.cit.*, pp.372,378.

24. *Εφημερίς Χρηματιστηρίου*, October 5, 1925. Also, *Ελεύθερον Βήμα*, December 4, 1924.

25. *G.P.D.*, Fourth Constitutional Assembly, Vol.D, Minutes of the Assembly of March 19 1925, p.549.

26. *Ελεύθερον Βήμα*, December 4 1924.

27. *The Economist*, December 6,1924, p.923. Also see: H.M.S.O., Department of Overseas Trade, (R.F.H., Duke), *op.cit.*, pp.39-42,48-49.

28. Michalakopoulos, *op.cit*, (1964), Vol.A, p.869, Vol.B., p.77.

29. J.O.Iatrides (ed.), Ambassador MacVeagh Reports: Greece, 1933-1947, (Princeton, 1980).

30. Indeed in the Department of State Archival material there is no evidence that the U.S.A. government showed an active interest in promoting the project. Source: U.S.A./NAT/MA5/S.D./M443: rolls 25-42. Regarding America's international role W.W.Rostow notes in his book: The United States in the World Arena, (New York, 1960), p.28, states that before WWI, "The men who ran the nation came honestly to believe that, if the U.S. concentrated on business the rest of its international interests would take care of themselves with minimum application of either force or idealism to the world scene". Also for the attitude of the U.S.A. towards world affairs see: W.Elliot, The Political Economy of American Foreign policy, (New York, 1955).

31. N.B.G./D.A.: D/265, Tsouderos to Diomedes, June 4, 1925.

32. Preliminary negotiations with Power had been completed in May 1924. See: N.B.G./H.A., X Loans, A Public Loans File 145, Refugee Loan: Diomedes to Drossopoulos, May 21 1924. This project was given the wholehearted support of the British government. Indeed under the Trade Facilities Act, a loan was granted. The proceeds of this loan were spent completely in Britain. Sources: B.E/C.B.P. 327, Vol.1: "Greek electrical undertakings-borrowings under Trade Facilities Act"; Niemeyer to Norman, January 27 1926.

33. N.B.G./H.A., New Records, Power File: Pybus to Diomedes, August 3, 1923; January 19 & 20 1926, memo of discussion between Ellissen, Vlangalis, and Horsefall.

34. For dispute between N.B.G. and the old electricity company, see: *Καθημερινή*, July 7 1925. Also, D.Gatopoulos, *op.cit.*, p.211. And for the involvement of the Bank of Athens in the Old electricity Company, see: N.B.G./H.A.: New Archives, Industrial Credit, File on the old electricity co.

35. Andreas Michalakopoulos, Μικταί Σελίδες, (Mixed Papers), (Athens, 1967), Vol.III, p.59.

36. In the pro-National Bank press it was suggested that the government should have awarded the construction of the new Athens water system to the Syndicate set up by the National Bank. However, to our knowledge the Syndicate did not make a formal offer to the government. Sources: *Ελεύθερον Βήμα*, November 24, 1924. Also, *Εφημερίς Χρηματιστηρίου*, January 4, 1925 and February 1, 1925.

37. *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος*, December 1924, commentaries on the First Refugee Loan, pp. 852-867. Also, *Ελεύθερον Βήμα*, December 19 and 20, 1924.

38. *Ελεύθερον Βήμα*, December 22, 1924.

39. It was inferior in technical terms to the two German tenders and it also did not satisfy the government's demand for financial backing. *Ελεύθερον Βήμα*, December 4, 1924.

40. *Ελεύθερον Βήμα*, December 23, 1924.

41. Article 52 of the water works contract stated that if the deadline was not met Ulen & Co. would have the right to unilaterally annul the contract. However a grace period was granted for up to April 5 1925. See: *G.G.*, First issue, Folio 100, April 24 1925, the Athens Water Works contract, article 52.

42. *G.P.D.*, Fourth Constitutional Assembly, Vol.D., Minutes of the Assembly of March 19 1925, p.550.

43. Markezinis, *op.cit.*, p.52.

44. For Michalakopoulos' fall in popularity see: Campbell and Sherrard, *op.cit.*, pp.133-134. Also, History of the Greek Nation, *op.cit.*, p.285.

45. The opposition was not exaggerating when it observed that the government had on purpose taken forty seven days to present the contract to the Assembly in order to avoid prolonged discussions. See: *G.P.D.*, Fourth Constitutional Assembly, Vol. A., Minutes of the Assembly of March 19 1924, p.549.

46. *G.P.D.*, Minutes of the Assembly of March 24, p.660.

47. The parliamentary committee had 45 members which were appointed by the heads of the political parties and representatives of the cities of Athens and Pireaus. This committee was divided into two subcommittees: the financial and the technical. Source: *G.P.D.*, Fourth Constitutional Assembly, Vol. D, Minutes of the Assembly of February 7, 1925, p.225.

48. That the firm of MacArthur Bros. was well known and had undertaken for fifty years many important construction jobs in the U.S. is something that was testified by Gausmann, (1940), *op.cit.*, p.85. Also, indicative of J.R. MacArthur's lack of seriousness is the fact that the statutes of his company-the American Hellenic Development Co. were officially drawn on January 6 1925, i.e. six months after the international competition had been held. Source: *G.P.D.*, Fourth Constitutional Assembly, Vol.D, Minutes of the Assembly of February 7, 1925, p.222, and Minutes of March 24 1925, p.661.

49. *G.P.D.*, Fourth Constitutional Assembly, Vol.D, Minutes of the Assembly held on March 19 1925, pp.553,555.

50. According to Michalakopoulos, Speyers & Co. informed him that when MacArthur had approached them they had declared that in order for them to consider the possibility of such a loan it would be necessary first that The American Hellenic Co. succeed in securing a contract from the Greek government for the implementation of the project. As MacArthur had not been awarded a contract the New York Bankers had absolutely no obligation towards him. Source: Michalakopoulos, *op.cit.*, (1964), Vol.B, pp.79-82.

51. M.Sturza, Grandes Familles De Grece, D'Albanie et de Constantinople, (Paris, 1983), p.285. Also, Even Gausmann, who was the General Manger of the Societe des Eaux during 1927-1940, conceded that Ulen 65 & Co. was very fortunate to have the cooperation of the Bank of Athens. See: Gausmann, (1940), *op.cit.*, pp.85-86.

52. N.B.G./H.A., New Archives ΓΙ, POWER FILE, Drossopoulos to Diomedes July 10 1925.

53. The basic document was the "water works contract" which was signed on December 22 1924. This contract was ratified by Law 3316 which was voted unanimously by the National Assembly on April 4 1925. As already mentioned the contract signed was modified before being ratified. The signed version does not exist in its original form in the primary material. However, since we have a detailed description of the modifications proposed by the parliamentary committee it is possible by logical induction to determine its substance. Same source as reference 41 above.

54. Moreover, if the debt incurred by the government (towards Ulen & Co. and the Bank of Athens) had not been repaid by 1952, the concession would continue ipso jure until the full repayment of the debt. *G.G.*, First issue, Folio 116, May 8, 1925, "Supplemental Contract" to the water works contract (in particular article 2), signed April 30 1925 and ratified May 7 1925.

55. The agreement pertaining to this matter was signed on October 16. The decree by which it was ratified was issued on October 23 1925. See the *G.G.*, First issue, Folio 281, November 4, 1925.

56. The agreement pertaining to this matter was signed on May 16 1924. See: Societe Anonyme Hellenique des Eaux des Villes D'Athenes-Piree et Environs, Laws- Contracts-Decrees, (Athens 1935), pp.238A-238B.

57. For the critical amendments made in the mid thirties to the original legal framework of the concession see: *G.G.*, First issue, Folio 47, January 24 1936, "Modificatory Contracts for the water supply of Athens Pireaus et Environs".

58. For a short description of the failure of American capital to finance the reclamation projects, see: Kostis, *op.cit.*, p.64. Also, K.Karamanlis, Ο Ελευθέριος Βενιζέλος και οι Εξωτερικές μας Σχέσεις: 1928-1932 (Eleftherios Venizelos and our External Relations 1928-1932), (Athens, 1986), pp.229-246.

59. B.E./C.B.P., 321, Vol.1, Niemeyer to Norman, June 16, 1925.

60. For the financial terms of this loan, see: "water works contract" articles: 3-28.

61. See article 6 of the "water works" contract.

62. Unfortunately no figures are available on how much income was actually derived from this 8% tax.

63. Angelopoulos, *op.cit.*, pp.159-201.

64. Hambros attitude was that it should be the banker par excellence of the Greek state, but that when it wished to it could call American capital to share in its flotations so as not to take alone the risk. In connection with Hambros efforts to get American capital to participate in the flotation of the First Refugee Loan, see:B.E./C.B.P., 326, Vol.2, E.Hambro to Norman, December 1, 1924.

65. *G.P.D.*, First Session, First Period, Vol.B, Minutes of the Assembly of May, 25, 1927, pp.664,667.

66. Michalakopoulos, (1964), *op.cit.*, Vol. B, p.82.

67. Markezinis, *op.cit.*, pp.52-53.

68. B.E./C.B.P., 321, Vol.1, Eric Hambro to Norman, April 28, 1925.

69. The only one in Greece to express such a fear was the radical Alexandros Papanastassiou. Source: *G.P.D.*, Fourth Constitutional Assembly, Vol. D, Minutes of the Assembly of April 2, 1925, p.801.

70. For Hambros conviction that one large loan should be floated, see: N.B.G./H.A., XXII Banks, ID National Bank and Foreign Banks, File 70, Correspondence with Hambros: Eric Hambro to Diomedes, October 21, 1925. For the quotations, see: B.E./C.B.P., 321, Vol.1, Hambro to Norman, 28 April 1925.

71. It would have been difficult for the lenders not to comply with this first demand for in article 5 of the contract for the First Refugee Loan the government was "binded not to place on the market the unissued portion of the 5%, 1914 loan before January 1926. But the unwritten understanding was that the Greek government would not place for public subscription any loan before that date. See: *G.G.*, First issue, Folio 123, May 15, 1925, Decree for the First Refugee Loan and the loan contract.

72. *Ελεύθερον Βήμα*, April 15, 1926.

73. *Ελεύθερον Βήμα*, June 17, 1926.

74. See article vi of the modified 1924 Geneva Protocol.

75. According to the Paris agreement of 1918, in order for the government to raise a foreign loan it was necessary to attain in advance the approval of the U.S.A., Britain, and France. Source: *Εμπρός*, March 20 1918; Also, *Times*, March 10 1922; Also, U.S.A./NAT/MA5/S.D./M443/41/868.40, Industrial Matters: Dukes to Crosby, September 26 1925.

76. B.E./C.B.P., 321, Vol.1, Roussin to Niemeyer, May 14, 1925.

77. In regard to the fact that Greece requested after the contract was ratified that the Powers give their assent for the placement of the loan under the supervision of the I.F.C., see: B.E./C.B.P., 321, Vol.1, Eric Hambro to Norman, April 28, 1925.

78. The three members sitting on the Commission, i.e. Britain, France and Italy had to give their permission if I.F.C. supervision was to be carried out. We do not know what position the French government took. However, it is most likely that it withheld its assent for France shared with Britain, the belief that Greece should avoid to conclude new foreign loans. Italy was more or less indifferent and played along with the wishes of the other two partners. Source: see F.O.371/13562, C9209, Memo of Sargent of February 18, 1929. Also see: B.E./C.B.P., 321, Vol.1, Roussin to Niemeyer, May 14, 1925.

79. B.E./C.B.P., 321, Vol.1, Niemeyer to Norman, June 16, 1925.

80. *Καθημερινή*, March 28,29, 1925.

81. *Ελεύθερον Βήμα*, June 19,1925.

82. Michalakopoulos was stalling. Though he agreed in December 1924, that the Treasury prepare a preliminary agreement for the war debt, after the agreement was prepared in February 1925, he did not want to sign it. Source: B.M./V.A., File 44, Draft Agreement between the British and Greek Governments in regard to the War Debt, February 1925; also, Tsouderos to minister of Foreign Affairs, March 2, 1925. (Also, see: Book I, Section II, Part III).

83. We do not know when the U.S.A. gave its assent but obviously here no issue was raised.

84. *Ελεύθερον Βήμα*, June 17, 1925.

85. *G.G.*, First issue, Folio 293, October 8, 1925.

86. In his early days in power, Pangalos was not openly dictatorial and could not afford to antagonize the National Assembly. He had usurped power with the silent consent of this institution indeed the latter before closing for the summer vacation on July 4 1925 conferred upon his cabinet: a) a vote of confidence, and b) the right "according to its own critical judgement" to conclude and ratify on its own (i.e. without the consent of the National Assembly) contracts signed by the government. See, Th.Veremis, (1977), *op.cit.*, pp.152-153.

87. Shortly after coming to power Pangalos was seriously contemplating placing Eliascos as Governor of the N.B.G. Source: *Ελεύθερον Βήμα*, June 27, 1925.

88. The Secretary of the Share & Loan Department (ed.), The Stock Exchange Official Intelligence, for 1922,1923,1924,1925,1926,1927.

89. N.B.G./H.A., New Archive: Γ, File 10, Foundation: Diomedes to Tsouderos, March 5, 1926; and Remington to Philaretos, January 14, 1926.

90. *G.G.*, First issue, Folio 47, January 24 1936, Modificatory Contracts for the water supply of Athens Pireaus and Environs.

91. N.B.G./H.A., Works, File 25, Water-Supply: governor of the N.B.G. to the director of the ministry of finances, September 28, 1940.

92. Gausmann, (1940), *op.cit.*, pp.235-247.

93. See article 28 of the "Water Works Contract". Also,it must be noted that the Greek government could make no demand for a supplementary loan before 9/10 of the $10,000,000 loan were already spent.

94. The bank rate until September 1931 was 9% and thereafter it fluctuated between 11-12%. Source: Bank of Greece, *op.cit.*, p.147.

95. See article 47 of the "Water Works Contract" and the Provisional Works Contract, *op.cit.*, articles 3-21. This loan was serviced promptly before the default of 1932.

96. Due to the repairs made to the Hadrian system under the temporary works, and the purification network set up under the "permanent" works part of the Hadrian system continued to be used after the completion of the works. Source: Gausmann, (1940), N, pp.296-298.

97. For the estimates, see: *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος*, January 1925, p.1139.

98. For the terms Agency and cost plus contract, see: Gausmann, (1935), *op.cit.*, p.3, and (1940), p.260. For the terms pertaining to the technical aspects of the construction of the works, see: articles 27-43,45 of the Water Works contract.

99. By cost of the works was meant the cost of the labour,machinery, and materials used, etc.

100. Under the term general expenses came all the administrative expenses associated with the construction of the Athens water works (i.e. it included the following: the cost of direction and administration of Ulen & Co. associated with the new Athens water system; the salaries and expenses of its administrative and higher technical staff;all rents and expenses of the company's office in Greece as well of its New York office set up for the works in Greece. See article 49 of the Water Works contract.

101. The theme of ensuring maximum local employment became recurrent throughout the twenties. See: Book II, Section III, Chapter 4, and Conclusion).

102. The fictional advantages of MacArthur were once again brought into the limelight. See again Table 1 in this chapter.

103. The same was true for works being undertaken at the port of Chania. Source: *G.P.D.*, Fourth Constitutional Assembly, Vol. D, Minutes of the Assembly of March 19, 1925, p.619.

104. *G.G.*, First issue, Folio 359, October 7, 1938, compulsory law 1380 and contract for the construction of new water works.

105. It is indicative of the changing financial circumstances after 1931-1932 that this new scheme was financed strictly from internal sources. Half of the necessary funds were provided from the revenues of the Societe, and the other half from ministry of communications.

106. The most important disagreements were over two issues. First, whether all the pipes used for the distribution system were delivered in good condition. Second, whether the repairs made to the Hadrian aqueduct could have been carried out at a lower cost. Finally, the various questions in dispute were settled by arbitration in 1929. The decision was in favour of the contractor. For details on these disputes and how they were settled, see: *Ελεύθερον Βήμα*, July 2,5 1926. Also, *Καθημερινή*, June 30 1926, July 4 1926. Also: Gausmann, (1940), *op.cit.*, p.203.

107. For a discussion on the topic of the weaknesses in the materialization of the other schemes see: Greek Chamber of Engineering, Η Οικονομική Ερευνα των Μεγάλων Τεχνικών Ζητημάτων, (The Economic Study of the Large Technical Issues), (Athens, 1933).

108. See articles 34 and 50 of the water works contract. The reservoir and dam were ready in October 1929. In June 1931 the construction of the tunnel and the distribution system was brought to a completion, and water from the artificial lake of Marathon flowed into Athens for the first time. Finally, during early 1932 the purification plant and the house connections were ready as well. The house connections had not been included in the original contract. See: Gausmann, (1940), *op.cit.*, pp.252-253.

109. See also the Conclusion to Book II.

110. S.Markezinis, *op.cit.*, p.53.

111. For another characteristic cartoon, see: *Καθημερινή*, January 22 1927.

112. Gausmann, (1940), *op.cit.*, pp.116-117.

113. The municipality of Athens handed over the management of the Athens water system to the Societe des Eaux in March 1926. The municipality of Pireaus followed in May 1926. It is notable that before 1925 the other large public utilities operating in the Athens area were private concerns. The largest of the these were: The Societe de Gaz which was basically owned by French and Belgian capital, and the old electricity company which was also principally owned by Belgian interests. See: A.K.Yiannitsis, "Οι Ξένες Αμεσες Επενδύσεις και η Διαμόρφωση της Νεοελληνικής Οικονομίας (1830-1939)" ("Foreign Direct Investments and the Formation of the Greek Economy (1830-1939)") in the *Επιθεώρησις Κοινωνικών Ερευνών*, issue 30-31, Athens 1977, pp.246-250.

114. Gausmann, (1940), *op.cit.*, p.220.

115. See for example: *Εθνικός Κήρυκας*, *op.cit.*, Vol. 8., pp.240-257.

116. *Ελεύθερος Τύπος*, October 11, 1928.

117. Gausmann, (1940), *op.cit.*, p.203.

118. The largest part of its workforce consisted of blue collar workers. As Gausmann notes 750 were labourers, plumbers, handymen, watchmen, etc.. See: Gausmann, (1935), *op.cit.*, p.25. Also, *Ελεύθερον Βήμα*, December 23, 1924.

119. *Ελεύθερον Βήμα*, December 23 1924.

120. Gausmann, (1940), *op.cit.*, p.322.

Chapter 2

The "Vardar" Valley Land Reclamation Project

Chronological Summary

September 1924:	Special law passed in the National Assembly for the materialization of infrastructure schemes in Macedonia.
April 7, 1925:	Private agreement signed between the syndicate des Etudes et des Enterprises, The Foundation Co. and the firm Gordon Leith and Co.
May 28, 1925:	The Hellenic Construction Co. is set up in London by the syndicat des Etudes at des Enterprises, The Foundation Co. and the firm Gordon Leith and Co.
June 24, 1925:	The government of Michalakopoulos signs a contract with The Foundation Co. for the reclamation of the Vardar valley.
June 25, 1925:	General Theodore Pangalos overthrows Michalakopoulos. The dictator refuses to submit the contract signed by the previous government to the Assembly for ratification.
September 7, 1925:	The Pangalos government signs a "new" contract with The Foundation Co.
October 7, 1925:	The Pangalos cabinet ratifies the contract of September 7, 1925.
December 1925:	The Foundation Co. begins work on schedule A.
April 1926:	The Foundation Co. grants to the Greek government a temporary loan of $2,500,000 for the reclamation works of the Vardar valley.
October 25, 1927:	The National Assembly ratifies the contract concluded under the Pangalos government with The Foundation Co.
October 1930:	The Foundation Co. completes schedule A.
March 1932:	Premier Venizelos asks The Foundation Co. to resign from its right to set up a maintenance company. The contractor acquiesces to this demand.
April 1, 1937:	A state agency for the productive works is set up. Its purpose is to finish off the Vardar valley, and the Struma reclamation works, and to supervise their cultivation.

2.1. Introduction

2.1.1. Land reclamation projects: The problem defined

Greece from its inception suffered from a basic structural imbalance. Although an agricultural country, it depended extensively on imports in order to cover its needs in staple food stuff such as bread, meat and sugar.[1] (Table 1) The quest for autarchy in basic goods became a major policy issue after WWI. The naval blockade imposed by the allies on Greece during the turbulent period 1916-1917 acted as a catalyst which (along with anti-Western sentiments) fueled this goal.[2] Food security, was identified with the concept of national autonomy and dignity[3] It was thought to depend on two prerequisites. First, the extension of the country's cultivable frontiers through land reclamation in Macedonia.[4] This large province, which was annexed in 1913, was seen as Greece's potential breadbasket because its climatic and geographical conditions were more favourable than elsewhere for the creation of rich pasturelands and cereal production. The problem was that half of this land lay to waste because it was covered by marshes, water logged lakes, and overflowing rivers.(At the time, it was estimated that wheat yields on reclaimed lands would be double the national average).[5]

Table 1

Cereal Production and Imports
(thousand tons)

Year	Imports	Imports as a % of Production	Total Consumption
1911	243	623	28
1914	255	849	23
1920	384	770	33
1922	406	640	38
1924	615	545	53

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens, 1930), pp.48,54.

The second prerequisite was the distribution to the peasantry of the country's large estates.(Parenthetically, let it be noted that most of these estates were in Thessaly and Macedonia). The purpose of such a reform was dual. It would appease the demands of the land hungry peasants who were no longer content to labour on the Chifliks of absentee landlords. Moreover, the peasants as independent landowners would become more productive - responding to an assumed incentive to increase output. Capitalist modernization would facilitate the development of markets and thus the supply and allocation of factors and produce.[6] The expropriation of land made sense from an economic point of view for one more reason: the landowners of the large estates on purpose restricted their cereal production in order to keep domestic prices high and "instead concentrated on raising rents and letting the land out for grazing and pastures".[7]

By the beginning of 1919, there were signs that the state realized the need to reclaim and redistribute land. However, they were postponed as a result of the Asia Minor Campaign (1919-1922).[8] During this short but turbulent period the extension of the country's geographical frontiers became the prime policy goal. But, with the refugee influx, the need for land reclamation and redistribution became even more urgent. The abrupt 20% net increase in the population caused a substantially greater dependence on cereal imports and an even greater imbalance in the country's land labour ratio.[9] It is clear therefore, that given:i) the state's quest for self-sufficiency in basic goods, and ii)the socio-economic pressures brought about by the refugees, the decision taken in 1922 to implement at once a radical land reform and an extensive land reclamation policy was an inevitable and rational choice.[10] It must be emphasized that 'land improvement' in addition to decreasing foreign dependence on staple foodstuff, facilitating the settlement of a large number of refugees in the sparsely populated northern provinces, creating an independent peasantry with a rising standard of living, aimed at decreasing unemployment and combating malaria.[11]

2.1.2. The new framework

Before the Balkan wars, the limited amount of reclamation works implemented had been undertaken within the framework of foreign direct investments. The most significant example was the Lake Copais scheme. This project which was carried out by the British firm, The Lake Copais Co, began in the late 19th century and it involved the reclamation of no more than 140,000 stremmas* of land. It can be argued that the Lake Copais concession, with all the tensions that developed between the concessionaire, the local peasants and the state, served as a model of what not to do.[12] Indeed, following WWI, foreign direct investments in this type of large scale projects became from a social point of view unacceptable as a result of the intense local pressures for a radical land reform. Thus, the state followed two alternative paths between 1922-1932:

*1 stremma is equal to a quarter of an acre.

First, minor projects were assigned to local firms. Between 1922 and 1932, three Greek concessionaires undertook (at their own cost) to drain 126,000 stremmas in various areas of the country.[13] The record was not impressive: two out of the three companies were not in a position to complete the works.[14] The second path followed by the state was the assignment to three foreign firms the reclamation of large areas (a total of 3,200,000 stremmas) within the framework of agency contracts i.e foreign portfolio investment.[15] The aim was to extend the cultivable frontiers of Greece by more than 25%. Had all three projects been fully implemented by 1932, the face of the country would have been transformed. In reality however, by 1932 only on a fragment of the land had the reclamation works been completed. In part the reason for this was that these schemes had a late start.(Indeed, the third scheme -the reclamation of the Thessaly valley- began in 1937!) This was due to the difficulty in raising finance before and after stabilization. The sums involved were large. In fact, the estimated total cost for first two schemes (i.e. the reclamation of the Vardar and Struma valleys) was approximately $44,000,000. This was more than four times the size of the anticipated cost for the building of the new Athens water system.[16]

Table 2

Vardar Valley			
Total area of the valley	:	2,200,000	stremmas
Area to be reclaimed	:	1,303,000	stremmas
Area actually reclaimed by 1932	:	90,000	stremmas
Area actually reclaimed by 1936	:	793,000	stremmas[1]
Area actually reclaimed by 1936	:	1,093,000	stremmas[2]
Struma Valley			
Total area of valley	:	1,560,000	stremmas
Area to be reclaimed	:	902,357	
Area actually reclaimed by 1932	:	522,000	stremmas
Area actually reclaimed by 1936	:	557,000	stremmas[1]
Area actually reclaimed by 1936	:	807,000	stremmas[2]

[1]Figures given by the Greek state.
[2]Figures given by the contractors. Though the claim of the Greeks that the figures given out by the contractors were wild exaggerations may be true, we must accept the likelihood also that the Greek figures may have been too low.

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1931, (Athens, 1932), p.108; G.Haritakis (ed.), Economic Yearbook of Greece for 1933, (Athens, 1934), pp.346,349; and G.Haritakis (ed.), Economic Yearbook of Greece for 1936, (Athens, 1937), p.199.

In a nutshell, the "tale" of the land reclamation works or the productive works (as they were dubbed contemporaneously) is quite a different story to that of the Athens water works: The two projects which began during our period of study were not completed by 1932; no management companies were established; and in 1937 the state directly took over the completion of the works. (See Table 2).

2.1.3. The sources

The primary sources consist largely of the recently opened files of the Historical Archive at the National Bank of Greece and the Diomedes Archive at the Greek Literature and Historical Archive. Relevant documentation exists also in the U.S. State Department Papers. The existence of material in this last archive on the Vardar project reflects the growing interest of the U.S.A. government in investments in Greece. Unlike the Athens water works this project did not become the subject of long parliamentary debates, nor did it attract to a significant extent the attention of the press. Personal testimonies (such as diaries and personal accounts) of those who were in charge of the project are lacking. Thus, inevitably the weight of our account is based on archival (and not printed) primary sources.

2.1.4. The present state of research on the subject

In the historiography of the interwar period the reclamation of the Vardar Valley has served (together with the other two reclamation schemes undertaken in the interwar years) as the focus of the wider debate that related to the issue of self sufficiency in cereals.[17] This debate confused and identified the two subjects. It is the contention of this dissertation, that though it is obvious that land reclamation was a sine qua non for the attainment of self-sufficiency in cereals, it by no means logically follows that the land should have been used exclusively for the production of cereals. This chapter presents for the first time a detailed and comprehensive treatment of this scheme. The story to be told is interesting, yet sad. The construction dragged on for more than twenty years at a cost multiple of the original estimations. Political instability prior to 1928 and the rise of economic nationalism in the early thirties affected negatively how the project was planned, built, and managed. The Greek state emerges as a weak actor. On the one hand, it was unable to take full advantage of the small but enlightened cadre of 'technocrats' at its disposal. On the other hand, it was manipulated by the N.B.G.

The thesis also uncovers the multifaceted nature of foreign capital inflow. In this instance an American contractor is backed by Hambros and the N.B.G. For reasons that will be explained, these bankers in the early stages of the project operated behind the scenes i.e. against the knowledge of the Bank of England and the Greek government.

2.2. The Basic Features of the Project for the Reclamation of the Vardar Valley and Points of Contrast with the Athens Water Scheme

The task which the American firm The Foundation Co. undertook in 1925, was to reclaim 1,300,000 stremmas of land in the Vardar valley through the drainage of large swamps and lakes, river canalization and other anti-flooding works.[18] At the time it was believed that as a result of these works, the cultivable area in the Vardar valley would be extended by around 45%, and that of Greece, as a whole by approximately 8.3%.[19]

It was a more important project in economic terms than the Athens water works. Larger sums were involved (its estimated cost was $26,570,000); its impact on the increase of production was direct;[20] it had a larger multiplier effect because proportionally a smaller part of the funds was spent on the importation of capital goods; and it made use of large amounts of indigenous labour.[21] In certain respects there were similarities between the two schemes. They began more or less concurrently; in both cases the builders were U.S. multinational engineering firms; these were the only two agency contracts -of the interwar period-in which foreign builders were granted concessions for the long-term exploitation of the works; and last, foreign finance was not sufficient.

However, the points of contrast were greater than the similarities. This scheme serves as an example of Anglo-U.S. collaboration and not displacement as was the case with the Athens water scheme. The Foundation Co., unlike Ulen & Co. had strong British connections. It enjoyed longstanding close ties with Hambros Bank, and had a subsidiary in London. Notably, although the Vardar valley scheme was officially assigned to the New York headquarters, in practice the London subsidiary contributed extensively to its implementation. British involvement had a 'domestic' corollary: the National Bank of Greece played an active role in the materialization of the project. The involvement of this institution in this instance was disguised and quite distinct from the open involvement of the Bank of Athens in the Athens water works.

Other differences were that the contractor did not provide financial backing nor was there an exclusive Vardar valley loan on the lines of the Athens water loan. In addition, the control of the Greek government over the construction of the works was more pronounced. This, in combination with the fact that in 1932 the government took away from the company the right to set up a concession worked to the advantage of the builder's public image. For, it was not forced to undertake unpopular measures such as imposing and collecting tax rates.

2.3. The Assignment of the Project to The Foundation Co.

In September 1924, upon the signing of the modifications to the Geneva Protocol, the government publicized that it was contemplating assigning to foreign contractors on an agency basis various projects in northern Greece such as the drainage and irrigation of land in Macedonia and Thrace, and, the construction of the Kavalla- Drama railway line. This was no integrated programme, but just a list of some of the schemes that had been mentioned in the 1919 Venizelos 'manifesto'.[22] (For details see: Book II, Section III, Introductory comments, The economic 'philosophy' of Venizelos).

The reclamation of the Vardar valley in Central Macedonia was at the top of the list because of its large size and the growing threat of inundation to the port of Salonika from the Gallikos and Axios rivers.[23] Contrarily to what was the case with the Athens water works and the other reclamation schemes that followed, no international tender was announced or decided. Unfortunately no explanation is provided for this deviation.[24] The procedure followed in this instance was that the government notified the foreign legations in Athens accordingly of its desire to go ahead with this project.[25]

Although the government this time did not require from the contractor to provide the required loan , the list of suitors was not long. Apparently, one German, one British and **two American** firms declared an interest in undertaking the scheme. [26] Both American firms were among the largest companies in their line of business. The one firm, Stewart Co., had undertaken a number of similar projects for the U.S.A. government.[27] The other was The Foundation Co, with experience in hydraulic works, sanitation works, public buildings, roads, railway and bridge construction. It had undertaken works in the U.S.A., Canada, Argentine, Chile, Columbia, Peru, Bolivia, Urugay, Mexico, Britain, France, Japan, Australia, East Africa.[28]

This 'multinational' was brought into the scene not through the state's appeal to the foreign legations in Athens but via the National Bank. Diomedes was determined that 'his' bank act as a liaison between foreign capital and the Greek state. It is not surprising therefore, that he searched out a likely contestant for the project while he was in London during December 1924 for the purpose of negotiating the flotation of the First Refugee Loan.[29] This move of Diomedes once again testifies the dependent position of the state vis a vis the N.B.G. as an intermediary between it and the international financial community. The governor of the National Bank was introduced to the president of the Foundation Co. by the Hambros family. The ulterior motivation of the latter being that in the past it had financed certain of the schemes undertaken by this American firm.[30]

The Foundation Co. showed, at once an interest in undertaking the reclamation of the Vardar valley, as well as the other projects the government was contemplating in Northern Greece. In cooperation with Hambros, and the N.B.G., it set out the following plan: Hambros Bank would raise (either on its own or in cooperation with American bankers and the N.B.G.) the loan capital that would be required in order to cover the cost of as many schemes the Greek government would assign to The Foundation Co.

To our knowledge, the National Bank introduced The Foundation Co. to the government in early 1925. In the Greek press it was reported that on the eve of the ratification of the contract for the Athens water works by the National Assembly, that is on April 2 1925, the president of Foundation Co., F.Remington and Diomedes, presented to the Prime Minister a package offer that The Foundation Co. undertake all of the reclamation schemes and railway construction planned in northern Greece. But, Michalakopoulos was at the moment willing to discuss and negotiate only for the reclamation of the Vardar valley.[31] All of the 'Macedonian' schemes could not start concurrently because of their high cost. Moreover, the assignment of numerous projects to one firm would provoke criticism from the opposition.

Four days after the meeting held at the Prime Minister's office, government sources announced that within a month an agreement would be reached with the Foundation Co. for the reclamation the Vardar valley.[32] However, more than a month went by and no contract was signed. Public opinion did not impede the conclusion of an agreement. The press did not launch an attack either against the builder or Michalakopoulos although the popularity of the latter continued to decline.[33] The absence of an aggressive opponent and the fact that by April 1925 the two rival banking institutions- i.e the N.B.G. and the Bank of Athens had entered a period of truce were largely responsible for this omnipresent 'public' acquiescence. (For truce see Athens water scheme, p.236).

The reasons for the delay in the signing of the contract lay elsewhere. An internal dispute broke out within the administration. The minister of communications, Valalas, and the technocrats at the department of public works refused to accept the builder's demand that the project be assigned to it on a cost-plus basis. Instead, they maintained that The Foundation Co. should accept to undertake the works on a fixed cost basis (or regie cointeresse as it was called in

Greece). At the time, the municipalities of Pireaus and of Salonika, had assigned two 'minor' infrastructure schemes to foreign firms on a lump sum basis, and the ministry of communications officials wanted to extend this contract system. The Foundation Co. counterargued that it was not possible to undertake construction on a fixed cost basis because it was the first time that land reclamation was to be carried out in Greece on such a large scale and no detailed study of the project had as yet been prepared.[34]

There was deadlock. Neither the minister of communications nor the builder were willing to alter their position.[35] An internal governmental crisis developed as the Premier took the side of the contractor, and demanded from the minister of communications to give in to The Foundation Co. As long as Valalas continued to be minister, Michalakopoulos could not sign a contract. Luckily, for The Foundation Co., on June 15 1925 the minister of the interior resigned, and Michalakopoulos was forced to resort to a major reshuffling of his cabinet in an attempt to save his government.[36] Not surprisingly, Valalas, was replaced by Karapanayiotis who ignored the technocrats of his ministry and proved more cooperative. Indeed, nine days later, on June the 24th, the restructured Michalakopoulos cabinet approved and signed a contract with The Foundation Co.

Thus, in the end it was the Greek Premier who had his way and not the bureaucrats. Let us repeat that with regard to the Athens water scheme the bureaucrats had also been sidetracked, but the scenario had been different. The opposition in Parliament and the N.B.G. had sided with them, whereas in this instance they created an internal governmental crisis. Pointedly, regarding both projects they put pressure on the political leadership to be more demanding vis a vis foreign interests.

On the whole the largest part of the press was sympathetic towards the contract and highlighted its strong points vis a vis the Athens water project.[37] However, not all were pleased. That part of the press which was against Michalakopoulos presented it as a poor deal. Particular note was made of the fact that Hambros would in all certainty finance the project.[38] Once again, it was falsely claimed that when the contract for the First Refugee Loan had been signed, the government had undertaken a legal commitment towards Hambros that it float all the future foreign loans of the Greek state.[39] It must be underlined that it was the National Bank that had insisted on "assigning" the financing of the project to Hambros. Michalakopoulos 'gave in' on this point for the reason that in the contract no definitive commitment was made that Hambros would finance the scheme. (For details on the financing of the scheme see below section 2.6.1.)

Ironically, the signing of the contract for the reclamation of the Vardar valley coincided with the end of Michalakopoulos premiership. One day later, i.e. on the 25th of June, General Theodore Pangalos declared a coup d'etat. Thus, Michalakopoulos did not have a chance to submit the contract to the National Assembly for approval. As we will see below, once again politics interfered with economics and issues of foreign finance.

2.4. Pangalos and the 'New' Contract

A typical dictator, Pangalos cast himself in the role of saviour of the nation. Once in power, he launched an attack against his predecessors by picking among other things the freshly signed contract with The Foundation Co. as a scapegoat. He refused to submit the contract for approval to the National Assembly with the contention that it was a sell out to foreign interests.[40]

As stated in the previous chapter the dictator condoned the other public works contract that had been signed by the Michalakopoulos government: Namely the one for the building of a new water system. His antithetical behaviour towards these two contracts was related to the fact that the internal political and economic background surrounding these two foreign investments was different. For one thing, Diomedes -who was intensely disliked by the dictator for his strong pro-Venizelist sentiments- was actively on the side of the Foundation Co. Moreover, the contract had not yet been ratified, and thus, Pangalos could freely attack it without fear of insulting the National Assembly. (As stated in the chapter on the Athens water scheme, the dictator could not afford to antagonize this institution during his early days in power).[41]

The Foundation Co. did not passively accept the marked turn of affairs in its fortunes. Its president, F. Remington, who had expressly stayed on in Greece since early April 1925, took two courses of action so as to compel Pangalos to adopt a conciliatory stance. First, he carried out a publicity campaign in the local press.[42] In addition, he asked the American Legation in Athens to drop, in this instance its overall attitude of leaving business to itself, and to intervene on the grounds that an American company was being wronged.[43]

Pangalos was not a strong dictator. Thus, this dual pressure proved adequate to soften his disposition. On September 6 1925, he conveniently forgot all his accusations against The

Foundation Co. and announced triumphantly, the signing of a 'new' contract with this firm. A copy of the 'old' (i.e. the Michalakopoulos) contract does not exist, but fortunately a list of the modifications made was published in the press. As Table 3 below demonstrates Remington was exagerating by claiming that only minor changes were made in the terms "accepted by Michalakopoulos to avoid having it go on the record that unqualified approval had been given to an act of the preceding government".[44]

Table 3

Improvements Made in the Contract Drawn Under Pangalos with The Foundation Co.

The financing of the project	
I.	The clause stating that a loan would be acceptable from the contractor's group even if the terms were worse than those of the First Refugee Loan was removed.
II.	The terms pertaining to the guarantees to be provided for the loan were made less onerous.
III.	The clause stating that, for 18 months after the flotation of a Vardar loan the Greek government would not be allowed to raise another external loan, was removed.
The construction	
I.	Five years after the completion of schedules A, and B, the government would be released from the obligation to assign to schedule C of the works to the contractor.*
II.	The contractor would have to present a study for the irrigation works.
III.	It was explicitly stated that if the government upon receiving the works found any omission or defect, the builder would be obliged at his own expense to make the necessary corrections.

*For a description of these schedules see Appendix 5.

Compiled from: list in the *Ελεύθερον Βήμα*, September 8,1925.

The 'new' contract was ratified by the Pangalos cabinet on October 7 in the manner of a purely pro forma action. This was a far cry from the procedure that had been followed for the Athens water works.[45] Finally, it must be noted that although a British bank had more or less secured the financing of the project, the British government was not pleased. This is understandable considering that within the time span of a few months two large infrastructure projects had already been assigned to American firms, whereas no progress had been made in the negotiations pertaining to the Athens electricity scheme that had been promised to the consortium set up by the Power & Traction Finance Co. Thus, after the Pangalos regime ratified the contract which it signed with the Foundation Co. in September 1925, the British Ambassador in Washington addressed a note to the State Department in which he maintained that the Vardar valley contract constituted a breach of Greece's international obligations which should not be allowed to pass without a protest.(The government was 'in fault' on the grounds that it had assigned state revenues for the future flotation of a loan without prior permission from the U.S.A., Britain and France as stipulated in the 1918 Paris Agreement. Unfortunately we do not know what Hambro's reaction was to this British protest.)[46]

The State Department replied to the Ambassador that since no flotation of loan had taken place, no grounds existed for the voicing of a protest. However, in order to keep appearances it conceded that if the Greek government floated a Vardar valley loan without consulting first the U.S.A. government "then the Department would be disposed to bring the matter to the attention of the Greek government".[47] This answer satisfied the British only temporarily. For as we will see below they rekindled the issue of a joint protest when the contractor granted a temporary $2,500,000 loan in May 1926. Clearly, the British were not content because they felt that the Greek government was overborrowing for public works. However, one cannot overlook the fact that there was also an element of envy on the part of the British regarding the recent preference for American contractors.

Below we will look into the terms posed and how these were actually carried out. But, before embarking on this task we will briefly explore the British investment trust that was set up by Hambros, the N.B.G. and The Foundation Co. at the time when the latter was negotiating with the Greek government the assignment of the reclamation of the Vardar valley. This trust was covered with a veil of secrecy. However, the discovery of its existence in the archives is useful because it sheds light on the behind the scene role of Hambros and the National Bank of Greece regarding this infrastructure project.

2.5. The Secret Pact: The Hellenic Construction Co.

On May 28 1925 the Hellenic Construction Co. was set up in London. With a share capital of only £15,000 this investment trust was of limited financial significance.[48] It basically was an agreement of cooperation among Hambros, the N.B.G. and The Foundation Co.- the end objective being to secure the financing, construction and exploitation of the Macedonian projects the government had announced in September 1924.[49] The formal members of the Trust were:

The Foundation Co, the Syndicat des Etudes et des Enterprises (the Greek banking syndicate set up in late December 1924 under the auspices of the National Bank), and the British banking firm Gordon Leith & Co. This last partner, as the representative of Speyer's & Co. in London had cooperated closely with Hambros. (See: Book I, Chapter 1).[50]

The responsibilities and gains of each of the formal partners are delineated in detail in Table 4 below. The Syndicat des Etudes et des Enterprises was to act as a liaison between the government and The Foundation Co., and Gordon Leith was appointed as the financial advisor of the Trust. In return for these specific services these two members would: i) receive a 10% commission on the net profit The Foundation Co. would earn from the construction of the projects assigned to it; and ii) be allowed to participate in the concessions the government would award to the American contractor.[51] It is not clear whether this participation of the two bankers would be of a management as well as of a pecuniary nature.

It was clearly stipulated that the financing of the projects to be built by The Foundation Co. was to be handled by Hambros. The two formal banking members of the Trust, i.e. the Syndicat des Etudes et des Enterprises and Gordon Leith, would arrange for partial flotations in Greece and the U.S.A. respectively, **only if** Hambros decided not to carry on its own the full risk of financing the Greek schemes of this American contractor. (Infact, in order to safeguard its position Hambros asked the Syndicat to commit itself to raise up to 25% of the loan capital if 'necessary'). Considering that Hambros was instrumental in setting up the Trust the question which arises is why it did not appear as a formal member.[52] It is not easy to discern a straightforward answer. However, a plausible explanation is that Hambros preferred not to participate openly in the Hellenic Construction Co. as a measure of precaution because public opinion at the time was critical of its tendency to monopolize Greek financial affairs. If we assume that this was the case, Hambros was extra cautious for the existence of the Trust was not publicized before or after it was set up. Notably, there was no mention of it in the daily Greek press;[53] nor in the annual report of the N.B.G. for 1925.[54]

Table 4

Responsibilities and Benefits of the Three Members of the Hellenic Construction Co.

I. The Foundation Co.:
Responsibilities: i) To negotiate with the Greek government the financing,construction, and exploitation of those public works in which The Foundation Co. was interested in. ii) To submit for approval to the Trust any final agreement reached with the government. Benefits: i) The assignment of the construction and exploitation of infrastructure projects in Greece.
II. Gordon Leith
Responsibilities: i) To act as a financial advisor to the Trust and arrange for partial flotations of loans in the U.S.A. if Hambros wished. Benefits: i) A 10% commission on the net profit that the builder would earn.[1] ii) The right to participate in the concessions granted to The Foundation Co. by the Greek government.
Syndicat des Etudes et des Enterprises
Responsibilities: i) To act as a liaison between the government and the builder. ii) To be willing to raise up to 25% of the loan capital required for the construction of the works.[2] Benefits: i) A 10% commission on the net profit to be earned by the builder.[1] ii) The right to participate in the concessions granted to The Foundation Co. by the Greek government.

[1]This was to be 5% in the case of the reclamation of the Vardar valley.
[2]In July 1925 Gordon Leith proposed that it be clearly stated that "should the issuing bankers in London and/or New York agree" only then would the syndicate of Greek banks participate to "the minimum extent of 25%. Whether this change was accepted is immaterial due to the complications which arose with the financing of the scheme.

Compiled from: Source: N.B.G./H.A., New archives Γ, File 10: Memorandum and Articles of Association of the Hellenic Construction Co., London, May 1928. Also, Report prepared by the National Bank on the Hellenic Construction Co. (undated) and Gordon Leith to Diomedes, July 9, 1925.

The Hellenic Construction Co. is a good example of the intricate network of interrelationship that characterized the phenenomenon of foreign capital inflow in the public sector of Greece. The government and the N.B.G. stand in this case not as partners that trusted one another, but as members of opposing camps. It is the case that the National Bank of Greece, placed its private interests in top priority. The inflow of foreign capital was good business: it provided a pecuniary profit and helped to promote its influence over the other major commercial banks -which as already mentioned it had engulfed in the Syndicat des Etudes et des Enterprises. The Hellenic Construction Co. also exposes one more facet of the fight which Hambros gave in order to establish a hegemonical position in the Greek arena. For this bank was viewed with suspicion throughout the political spectrum. Indeed, its only trusted ally in Greece was the National Bank. In short, the actual record of the Hellenic Construction Co. expost proved less impressive than the goals set. First, The Foundation Co. undertook only the reclamation of the Vardar valley. Second, the Trust in the end did not manage to set up a concession for even this one project. Third, the financing of this single scheme was in large part covered from the budget. (See below, Book II, Section III, Chapters 2 and 5).

2.6. The Heart of the Matter: The Project in Operation

The basic framework for this land reclamation scheme is provided in the contract signed by the government of Pangalos, and the Foundation Co. on September 7, 1925.[55] But, after the demise of the dictatorship three laws were voted by the National Assembly modifying unilaterally certain terms. At first, in 1927 it was specified that the loan to be raised would have terms at least as good as those of the Stabilization Loan.[56] Then, in 1928 the government dropped its plan for an exclusive 'Vardar Valley' loan. Instead, it lay the framework for the flotation in tranches of a general purpose public works loan that would cover this and other projects.[57] Finally, in 1932 the builder was deprived from its right to set up a maintenance company.[58]

The government through the aforementioned "corrective "legal documents did not improve the terms under which the construction of the project was taking place. The remuneration of the builder -although it was the highest rate to be charged for our period of study- was not lowered. It can be argued that this inertia on the part of the government and the National Assembly was related to the fact that the contractor on the whole carried out the works conscientiously. (See below 2.6.2.). However, beyond doubt the most important factor responsible for this passive behaviour was that none of the successive governments which ruled during the twenties wanted to antagonize the U.S.A. (As is explained in Book II, Section I, chapter 3, the other Pangalos agency contract: the railway scheme was subjected to major corrections. For the terms were indeed scandalous and Belgium was not a major source of capital for Greece.)

2.6.1. The mode of financing

a. The Terms Posed in the Contract

The Foundation Co. was burdened with the responsibility of making the necessary arrangements, for the flotation through public subscription of a loan that would be adequate to cover the project. If by May 1927 (i.e. within 18 months of the conclusion of the contract), the builder for any reason whatsoever failed" to secure a long-term bond loan under terms at least as good as those of the First Refugee Loan, the government would have the right to terminate the contract with respect to schedules B and C, that is the two schedules that constituted the bulk of the project. (For a description of these two schedules and schedule A, see: Appendix 5.)[59]

Hence, the contractor's position would in no way be solidified until a loan was secured under the terms posed by the government. It was agreed that during the 18 month 'trial' period the builder was not to rest idle. It was to commence immediately after ratification Schedule A and was to provide a $600,000 advance. Thus, The Foundation Co. carried a double risk if no loan was forthcoming. In addition to loosing the second and third parts (schedules B and C) of the project it would also have to recover the $600,000 it would spend.

The size of this bond loan was not specified in the contract signed between the government and the Foundation Co. But, it was left to be assumed that it would cover the full cost of the reclamation of the Vardar valley which was estimated at $26,570,000. The securities offered were described in detail (See below Table 5). As was the case with the First Refugee and the Athens Water Loans, they were sizeable and of a similar nature. However, the loan was not to be placed under the control of the I.F.C. By this point, the Greeks had got the message that regardless of whether British financiers were involved or not the Commission did not wish to supervise public work loans.

Table 5

Securities Offered for the Flotation of a Loan for the Vardar Valley

I)	The surplus government revenues assigned to the I.F.C. that remained after the service of the Loans issued up to September 1925, including the remaining portion of the Five Hundred Million 5% Loan of 1914 not yet issued. Also, if the government issued a second refugee loan the latter would have a position of priority preceding the loan contemplated for the Vardar reclamation scheme.
II)	The proceeds of the existing taxation on the land itself or its yield, of the Vardar plain.
III)	The proceeds of any additional taxation which the government would impose on the lands of the Vardar valley.
IV)	Mortgage on the land to be drained, as well as that land which is periodically inundated and which already belongs to the state. (Unfortunately, the contract does not give an estimation of the pecuniary value of this land).

Compiled from: Articles 28 and 29 of the Vardar Valley contract.

The most interesting feature of the contract with regard to the financing of the scheme was that it marked a re-embracing of Hambros. For it was unequivocally stipulated that: i) the financial group to whom the contractor would first apply [for the loan] would be the Group which has issued the First Refugee Loan (i.e. Hambros); ii) Hambros would be assured the flotation of the loan, under the condition that it fulfilled one prerequisite: to offer to float a loan within 18 months under terms at least as good as those of the Refugee Loan. This commitment on behalf of the government would hold **even if a third party offered to the government terms that were more advantageous than those of the First Refugee Loan.**

The 'reinstatement' of Hambros was a matter of seminal importance for the National Bank and The Foundation Co.[60] As noted above, this American multinational, had entered into a secret pact with Hambros in the spring of 1925 because this bank was familiar with the complicated financial conditions in Greece. In addition, as a matter of principle, the management of The Foundation Co. considered that in this instance it ought to cooperate with a British and not an American bank because it believed that the interests of Britain would always be larger than the U.S.A.'s in the Near East.[61]

Immediately upon the ratification of the contract by the Pangalos cabinet, the builder and the National Bank furnished an advance of $600,000.[62] This advance was granted at par and at an interest rate of 6%. At the time, it was considered sufficient to cover the cost of schedule A which was planned to take approximately 24 months.[63] The contract had stipulated that this advance would be granted exclusively by The Foundation Co. Given the small sum involved it seems offhand strange that this 'multinational' did not fulfill this obligation solely on its own. Infact, it should be remarked here that the builder insisted that the N.B.G. grant half the amount.[64] Apparently, The Foundation Co. felt that because a dictator was in power its position in Greece was 'precarious'.[65]

From the point of view of the Greek government, in the last analysis, the reembracing of Hambros was 'inevitable' given the limited options facing the Greek government. A Hambros loan under 'good' terms, was a better alternative to no loan at all. In the end, no exclusive £3,500,000 Vardar reclamation loan was raised by Hambros by May 1927. (For the long-term financing of the project see again below Book II, Section III, Chapters 2 and 5).

b. The Advance and Temporary Loan Furnished by The Foundation Co. and the National Bank

The participation of the National Bank in the advance was kept secret. A plausible explanation is that the Bank did not want its connection with The Foundation Co. to be publicized. In addition, the National Bank of Greece was under constant pressure from Pangalos to lend capital to the state.[66] Diomedes repeatedly objected to the demands of the dictatorship for loan funds. Thus, had it become known that the N.B.G. had lent $300,000 for the Vardar reclamation project, inevitably, Pangalos' criticism against the Bank and in particular its pro Venizelist governor would have become further inflamed.

The $600,000 advance made possible the beginning of schedule A at once in December 1925. The deadline for the flotation of a loan was May 1927, and theoretically the contractor had plenty of time ahead in order to make the necessary arrangements. However, the president of the Foundation Co., considered that a loan should be raised as soon as possible. Indeed, Remington was concerned that the activities of his company were unfolding under the growingly dictatorial regime of a "madman".[67] He was aware that in Greece the political situation could change from one moment to the next, and was afraid that once an elected government was reestablished, the National Assembly might try to cancel or modify the existing contract. It was obvious that the contract would stand less chances of being rejected by a constitutional government after the inevitable downfall of Pangalos, if in the meanwhile, a loan had been raised and the cancellation clause voided. (Remington did not openly admit it, but an additional reason why he must have been anxious to see this clause voided was the high remuneration that had been awarded to The Foundation Co. (See below 2.6.2.). Hambros in the summer of 1925 had declared to the government that it expected the temporary embargo, which the City had imposed in order to facilitate the stabilization of the pound, to be lifted in the autumn, and that it would be possible soon thereafter to raise a £3,500,000 loan for the Vardar reclamation project. But, Remington discovered one month after the contract was signed with Pangalos -i.e. in October 1925- that Hambros Bank was no longer willing to keep the 'promise' for an early flotation.[68] The explanation offered by Hambros for its change of mind was that "...the public here [i.e. the City] are [were] still a little nervous as to the effect of the military 'coup d'etat' and will not be reassured until a constitutional government has been nominated by public vote".[69]

Indeed, during the weeks that followed the ratification of the contract, Pangalos' public image abroad deteriorated. The British press attacked his increasingly wreckless handling of Greek public finances. He was castigated for trying to turn Salonika into a great "place des armes" in order to expand Greece's Northeastern geographical frontiers. And, special attention was given to the fact that during what started out as a minor border military episode, he ordered Greek troops to invade Bulgarian territory.[70] (See Book I, Section II, 2.2). Under the circumstances it was unlikely that the British public would subscribe to a 'Pangalos' loan. More importantly, the real stumbling block was that the British Treasury had just enforced an embargo that precluded the Greek government from raising loan capital in the City until an Anglo-British war debt agreement be reached.[71] The advise Hambros gave to Remington was that The Foundation Co., should wait for the war debt to be settled first, at which point one comprehensive loan of some £12-13,000,000 could be arranged to cover the refugees, the drainage of the Vardar valley and the road scheme scheme. (In terms of commission and issue costs -a single loan would be cheaper for Greece.) Naturally, Hambros assumed that his house would undertake the flotation of such a loan.[72] Remington did not want to wait. Ignoring the commitment towards Hambros that it would finance the Greek projects of The Foundation Co. (see above, 2.5.), he approached the National City Bank of New York and asked it to arrange for a 'private' loan'- a public subscription was out of the question as in the meanwhile the U.S.A. had imposed a war debt embargo also. For reasons that are not known, this attempt lead no where.[73]

Meanwhile, in mid January, it became apparent that in order for the swamp lakes of Amatovo and Artzan to be rendered cultivable and not periodically flooded, in addition to undertaking drainage works, it would also be necessary to realign part of the Axios river. As a result the cost of schedule A would be almost 90% higher than originally planned. (I.e. the revised schedule A would require a total expenditure of $1,132,000 and not the originally estimated $532,000).[74]

The ministry of communications demanded that The Foundation Co. supply the additional funds needed. Remington panicked. Although he was eager to consolidate the position of The Foundation in Greece, he was not keen to increase the advance to a total of $1,132,000. He threatened to terminate the whole affair. As he put it to A.Filaretos, his liaison with the National Bank, without a loan it would be "a waste of time and energy on the part of any of us to plan the carrying out of an undertaking the size of our contract".[75] The possibility of a 'bond issue' may have been ruled out for the moment, but the contractor, nevertheless, was determined to find an immediate alternative solution to the two pressing problems facing his company's activities in Greece: to finance schedule A completely, and to arrange the deletion of the cancellation clause. The Foundation Co. came out of the deadlock it was in, by offering to grant a temporary loan of $2,500,000-in which the $600,000 advance would be included, with the understanding that the government would agree to void the cancellation clause.[76] The National Bank of Greece was 'asked' by Remington to contribute half of the loan capital.[77] This demand was unwelcome news to the Bank because at the moment it was in narrow financial straights. However, as the consolidation of the Foundation's position in Greece, was a matter of high priority for the N.B.G, Diomedes finally agreed to furnish the $950,000 requested. In order to meet this obligation the National Bank 'discretely' borrowed from Hambros £150,000 (i.e. approximately the equivalent to $730,000).[78]

As was the case with the advance of the $600,000, in the contract drawn up between the government and the contractor on May 14, 1926, it appeared as if the temporary loan was being provided exclusively by The Foundation Co. The Greek government apparently did not know that the N.B.G. had 'provided' half of the amount. And naturally, it was not aware of the indirect involvement of Hambros in the affair.[79]

The contribution of Hambros was kept secret from the British government also. Lending capital to public institutions such as the National Bank was formally not against the Treasury guidelines as the embargo was still directed only against the Greek government and not against public bodies such as the N.B.G. However, it appears highly unlikely that the Treasury would have been pleased had it known of the Hambros loan to the National Bank. Strictly speaking, the final recipient of these funds was the Greek government, and thus a circumvention of the embargo was entailed. Without Hambros' assistance to the National Bank, the temporary loan would not have been forthcoming. That Hambros defied the embargo and the will of the British Treasury shows that this financial institution had the imagination and the determination to escape from the tutelage of the state apparatus when it considered that its larger interests were at stake. In this case the larger interest being the consolidation of the Foundation Co. in Greece. These events appear to indicate a banker's consortium acting with little reference to public policy and largely independent of official supervision.

The news of the temporary loan was received badly in Britain. This explains why Hambros did not inform the Treasury of its involvement in this financial deal. Once again London claimed that Athens had infringed the Paris Agreement. Strictly speaking, since state revenues were granted as guarantees for this loan, the correct procedure to have been followed was for the government to have asked for the consent of the Powers before signing the contract. But, as with the First Refugee Loan, and the Athens Water Loan, the policy of Greece was to present the Powers with a fait accompli -i.e. to notify them after the foreign loan contracts were signed and ratified. (The logic being that the Powers would thereby be discouraged from using their right of veto). It came as no surprise, when in August 1926, the British Ambassador in Washington suggested to the State Department that a joint protest should be made by the governments of the U.S.A., Britain and France for the $2,500,000 advance.[80] The State Department did not agree and Grew, its Acting Secretary communicated to the British Ambassador that "it should be helpful to learn the reasons which have led H.M.G. to suggest the making of a joint protest at this time and the restricting of the scope of such a protest to the particular case mentioned" since other violations existed for which the British government had made no complaint. For the Greek government had raised the Canadian Wheat Loan of 1923, the Belgian Railway Loan of 1925, and the freshly concluded Swedish Match Loan of July 1926, without asking beforehand for the assent of the Powers.[81]The British Ambassador did not reply to Grew's letter. However, in November of the same year it once again brought up the issue. Interestingly, the American Treasury was of the opinion that the U.S.A. government should- as a matter of principle-file a protest against the Greek government. However, the State Department took no action on the grounds that if it filed a protest American interests in Greece would be hurt.[82] It must be noted that the antithesis expressed between the U.S.A. Treasury and the State Department in this instance, is reminiscent of the clashes that developed between the Foreign Office and the British

Treasury with respect to policy making towards Greece. The Treasury appeared to adopt a more narrow financial attitude on certain important pending issues with Greece, (e.g. the war debt or the infringement of the 1918 Paris Agreement) whereas the Foreign Office had a broader commercial perspective.[83] In the end London dropped the issue, and no protest was made by either one of the three Powers.

The temporary loan enabled the builder to start the construction of the project at an early date. (The first long term loan which contributed to the financing of this scheme was raised in December 1928 - at which time $2,250,000 out of the total of $2,500,000 of the advance had already been spent.) It could be argued, that the Greek government might have tried to raise a bond issue in a capital market other than London and New York prior to the settlement of the war debt. However, such an attempt would have failed. France was not interested in Greek loans. And, the capital markets of the other continental countries familiar with Greece were not able (or willing) to provide anything other than expensive private loans tied to specific projects from which they would have a direct benefit. (See in Book II, Section I, Chapter 3, and in Book I, Section II, 2.1). Thus, there would have been no interest in financing a project that had already been awarded to an American contractor.

c. The Inadequate Long Term Financing of the Project

Eric Hambro as early as 1925 had suggested to the Greeks that it was in their interest to combine the financing of various projects (and the provision of supplementary funds for the refugees) under one loan after the embargo was lifted by the City of London. He forewarned that if the government came to the market at frequent intervals for smaller sums, Greece's international creditworthiness and bargaining position would deteriorate.[84] A combined refugee public works loan was never raised. However, the government "followed' the advise of the British banker in that it floated two 'umbrella' general purpose productive works loans after stabilization.[85]

The First Public Works Loan issued in December 1928 amounted in total to £4,000,000. But, only £1,658,000 was allocated to the reclamation of the Vardar valley. The second loan raised in May 1931 had a nominal value of £4,600,000, but only £434,988 was spent on this scheme. Thus, in total, no more than £2,000,000 was made available through foreign finance. (For a breakdown of how the proceeds of the two loans were allocated see below Table 6). These funds proved insufficient, and after 1931 whereupon the inflow of foreign capital suddenly dried up, the government was forced to resort to the Treasury in order to complete the reclamation of the Vardar valley. Approximately 43% of the amounts spent up to 1936 were raised in this manner. (See Tables 7 and 8). No other option was open for the reason that the weak domestic capital market had already been tapped for the Athens water scheme for the sum of 270,000,000 drs. which was a large figure for the standards of the day. (Unfortunately, we do not have data on the amounts spent on the project after 1936).

Table 6

Breakdown of the Two Public Works Loans:

First Public Works Loan (1928)	
i) The underwriter - issuing house:	
Hambros Bank Nominal capital of loan:	£ 4,000,000
Net amount made received by the government:	£ 3,560,000*
ii) Breakdown of the use of available funds:	
a. Vardar reclamation project:	£ 1,658,000
b. National road network:	£ 850,000
c. Agricultural Bank of Greece:	£ 373,000
d. Struma reclamation scheme:	£ 420,000
Second Public Works Loan (1931)	
i) Issuing houses:	
a. Hambros Bank:	£ 2,000,000
b. National Bank of Greece:	£ 1,000,000
c. Enskilda Bank (Stockholm):	£ 500,000
d. Credit Suisse(Zurich):	£ 400,000
e. Banca Commerciale Italiana (Milan):	£ 400,000
f. Mendelshon & Co. and Nederlandsche Handel Maatschappij (Amsterdam):	£ 300,000
Total nominal capital of loan:	£ 4,600,000
Net amount received by the government:	£ 3,772,000
ii)	
a. National road network:	£ 908,429
b. Struma reclamation scheme:	£ 560,317
c. Vardar reclamation project:	£ 434,988
d. Payment of Hambros advance **:	£ 1,500,000
e. Payment of Speyers advance**:	£ 218,994
f. Various works undertaken by the ministries of communications and agriculture:	£ 102,299

*By net amount made received by the government is meant the capital made available to the Greek government after we make allowance for the price of issue, the cost of printing the bonds , the commission of the bankers,and any other cost related to the flotation of the loan which is deducted from the net produce of the loan.

**The funds of the Hambros advance were spent on the public utility projects undertaken by foreign capital. However, unfortunately we do not know how exactly these funds were allocated.

Sources: G.L.H.A /D.A: File 37, Document 22 "Productive Works and road scheme-completion expenditure 1930-1932", documents titled: "Comprehensive table of henceforth funding"; and "Capitaux disposes hors du budget-Produit d'emprunt productif 6% 1931". Also, G.Haritakis (ed.), Economic Yearbook of Greece for 1931, (Athens,1932), p.52.

Table 7

Funds Provided from the Two Public Work Loans: 1925-1931*

1925	$ 36,000
1926	$ 664,000
1927	$ 770,000
1928	$ 778,000
1929	$ 5,802,000
1930	$ 1,125,000
1931	$ 2,175,160

*Because of the advances granted funds were made available prior to the flotation of the two public work loans.

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1936, (Athens, 1937), p.199.

Table 8

Funds Provided from the State Budget up to 1936

1931	$ 632,954
1932	$ 1,293,970
1933	$ 828,157
1934	$ 1,291,989
1935	$ 2,043,357
1936	$ 2,562,097
TOTAL*	$ 8,652,524

*The construction of the project did not stop in 1936. However, we do not know what was spent after 1937.

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1936, (Athens, 1937), pp.198-199.

In conclusion, it must again be emphasized that the Greek government, did not have a consistent and well planned policy: it aimed too high and achieved too little. The possibility of raising a loan only for the reclamation of the Vardar valley and at an early date proved a posteriori not feasible for two reasons: One, the Pangalos dictatorship was a stumbling block. By the time the dictator signed and ratified the contract the City was no longer willing to raise money for the Greek government. Second, as we will see in the chapter on the First Public Works Loan it is obvious that the stabilization of Greece came chronologically too late so as to permit a massive capital inflow from the U.S.A. Thus, in the three years that intervened between 1928 (i.e. the stabilization) and the world crisis of 1931, due to its continuing financial dependence on Britain, Greece had a limited success in securing the requisite capital for the project. One, perhaps, might be allowed by overstating the argument to maintain that this project would have been completed on time had a similar deal been made to that attained for the Athens water works. i.e had the builder been obliged to finance the construction of the scheme.

2.6.2. The works

The Foundation Co. carried out in the Vardar valley the drainage of swamps and lakes, antiflooding works such as river realignment and repairs to, as well as, the building of bridges and roads. (For a detailed description see again Appendix 5). In addition, the government had agreed to assign to it the construction of an irrigation system -under similar conditions as those specified for the reclamation works- in the event it decided to embark on such a project within five years after the drainage was completed. However, this commitment was not kept and the irrigation of the Vardar valley was undertaken in the forties by the same state agency which finished off the reclamation.[86] Theoretically, this thesis should answer two questions. These are whether the works were of high quality and whether they were constructed at the lowest possible cost. The data on both counts are insufficient. However, at the time, there was a general concensus that: i) although the company was sued on a few occasions the end product was of a high quality[87], and ii) there was plenty of waste and the slow pace of the works was not the sole reason for this.[88]

Table 9

Land Cultivation and the Reclamation Works in the Vardar Valley

I.	Total area of Vardar Valley:	2,200,000	stremmas
II.			
	a. Land cultivated before the reclamation:	480,000	stremmas
	b. Pasture land before the reclamation:	321,000	stremmas
III.	Land to be reclaimed by Foundation Co.*:		
	a. lands drained:	502,000	stremmas
	b. lands protected from floods:	801,000	stremmas
	c. total (i.e. (a)+(b):	1,303,000	stremmas
	d. Area of (c) classified as cultivable:	944,000-1,100,000	stremmas
IV.	Reclaimed land to be irrigated**:	776,000	stremmas

*The area to be reclaimed would not be 100% cultivable. The most conservative estimate was that only 944,000 stremmas from the land made available through the reclamation would be cultivable, whereas the most optimistic was that 1,100,000 stremmas would be rendered cultivable.
**Part of the areas drained and part of the areas protected from floods was to be affected by the irrigation works that Foundation Co,. wanted to undertake. However, no contract was signed for these works, though both sides agreed that they were necessary.

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1931, (Athens, 1932), p.109. Also, Supreme Economic Council, The Exploitation of the Lands From the Productive Works in Macedonia, (Athens, 1935), pp.19-20.

The terms posed

In conformity with the other large social overhead capital works built at the time, the basic weakness of this scheme -from the point of view of the state- was that effectively no upper limit was placed on the builder regarding the cost of the works.[89] The fee and general expenses awarded to the contractor were high. At 34.55% of the cost of the works, this remuneration was actually the highest to be awarded to a contractor throughout 1922-1932. (See Book II, Section I, Chapter 1, Table 12.) The upper limit placed for the general expenses was 17%. In addition, the agreed fee was not a fixed sum as was the case with the Athens water works. Instead, it was determined on a percentage basis and it was to amount to 15% of the cost of the works **cum the general expenses**. It must be underlined that the other cost plus percentage fee contracts of the interwar period determined the fee **only** on the basis of the cost of the works. Thus, this particular agency contract gave plenty of incentive to the builder to blow up the expenditures related to the construction of the project and to ensure that the general expenses would actually reach the agreed ceiling.

The high remuneration of the contractor was in large part related to the fact that no aggressive competitor appeared for the scheme, as had been the case for example with MacArthur in the Athens water works. Moreover, given Pangalos' overturning of the normal parliamentary procedure, one cannot avoid indulging into making the hypothesis that had the contract been submitted for ratification to the National Assembly in 1925 (i.e. right after it had been concluded as had been the case with the Athens water scheme) the rate of remuneration would have been lowered. As things stood, the contract was submitted for ratification to the National Assembly after Pangalos' downfall in 1927. Because the contractor had by this time begun work on the scheme, Parliament feared that if it lowered the latter's general expenses and fee American capital in general would be scared away from Greece.

The one vital area in which the terms of this project marked a significant improvement was that relating to government control over the actual construction of the scheme. Whereas with the Athens water works the government was more of an advisor than a supervisor to the contractor,the opposite was true for the Vardar valley reclamation. Namely, in this case, it was clearly specified that "the works shall always be constructed in accordance with the plans etc of the contractor as finally approved or modified by the Employer either at the time of their submission, or during the execution of the works".[90] However, the cost of this enforced supervision was high- to the extent that the 'exuberant' remuneration awarded to the contractor was a trade off for more extensive government supervision.

The actual record

The works lasted around twentyfive years-i.e.they were completed sometime in the late forties.[91] In the contract it had been stated that the reclamation of the Vardar valley would take seven years. However, although the contractor began work in 1925, as originally planned, by 1932 only schedule A was finished.[92] Schedule B was in a half finished state and work had not yet begun on Schedule C.[93] Schedule A was of minor significance, considering that the total amount of cultivable land to become available through the whole project had been estimated at around 940,000-1,100,000 stremmas.

Through schedule A the cultivable frontiers of the Vardar valley were actually extended by only 81,000 stremmas. This was 20% lower than the initial estimates regarding the area of cultivable land to be reclaimed through this part of the project. This was an abominable record. And ironically, inspite the acute land shortage problem, the 81,000 stremmas supplied through schedule A, were not taken full advantage of. Up to the late thirties, the increase in the cultivated land in the Vardar valley was approximately only 46,700 stremmas. The 45,000 stremmas of this newly cultivated area consisted of privately owned plots, situated between the two lakes and the Axios river, which had in the past fallen into disuse because they were periodically flooded by the river.[94]

The remaining 1,700 stremmas of schedule A, which were put to cultivation, belonged to the 36,000 stremmas of state land made available through the drainage of the lakes Amatovo and Artzan. The larger part of this new land was not ploughed. The government did not hand out this area to the refugees as originally planned nor did it create a special 'farm agency'.[95] In view, therefore, of the fact that the population pressure exerted by the refugees was still a stark reality, the inertia displayed by the government was indeed unfortunate from both an economic and social angle.[96] (For details on this subject see below: 2.6.3.)

One small digression. This inaction cannot be explained by the contraction in the world commodity markets. Greece's major exports in the interwar period in order of importance were tobacco, currant and wine. Currant exports rose by 8%. On the contrary, the volume of tobacco and wine exports fell by about 20% and 72% respectively. (See Table 10) However, the area of land devoted to the cultivation of these three exports actually increased by 4%. Thus, with the contraction in world trade there was no substitution effect. I.e. in Greece it was not the case that land previously devoted to the production of agricultural exports was re-located to grow basic foodstuffs for home consumption. Thus, the need to expand the country's cultivation frontier was just as urgent after the world crisis as before.

Table 10

	Value of exports (mill.drs)	
	1926-1930	1931-1939
Tobacco	3.411	3.141
Currants	1.267	1.332
Wine	453	206
	Volume of exports (thousand tons)	
	1926-1930	1931-1939
Tobacco	51	41.2
Currants	91	98
Wine	112	43.3
	Area of cultivated land (in stremmas)	
	1926-1930	1931-1939
Tobacco	932,000	874,000
Vine	1,142,400	1,271,900
Total	2,074,400	2,145,900

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1939, (Athens,1940), part I, pp.93,117; part II, pp.32-35.

Overall, the substantial delays in the completion of the works was due to a number of factors. First, in contrast to the Athens water scheme, no detailed plan existed before the project was assigned to the contractor. Second, because of the high incidence of malaria, the building activity of the Foundation Co. during the first two years almost exclusively consisted of digging temporary ditches and trenches.[97] Third, the project suffered from poor organization. Too many parts of the scheme began concurrently. Thus, when the supply of foreign funds dried up suddenly in 1932 no one part was ready apart from the drainage of the Artzan and Amatovo swamps.

From 1932 the pace of construction became exceptionally slow. This led to a number of complications because various segments of the works were deserted halfway through, and as a result they suffered physical deterioration.[98] One particular menace was the periodical incidence of floodings. Due to this, the contractor had to spend extra time and money on necessary repairs. A chain effect process set in whereby one delay led to further delays and rises in expenditure. Given the urgent need to finish the scheme and the poor financial standing of the state, this waste had a high economic and social cost.

Table 11

Estimations Made Regarding the Total Cost of the Reclamation-Irrigation Works in the Vardar Valley[1]

I.	Estimated total cost by the Greek government:	
	a. reclamation:	$ 18,900,000
	b. irrigation:	$ 7,000,000
	c. total (a)+(b):	$ 25,900,000
II.	Initial estimated total cost by Foundation Co.(1925)[2]:	
	a. reclamation:	
	schedule A	$ 600,000
	schedule B	$ 15,750,000
	schedule C	$ 10,220,000
	total	$ 26,570,000
	b. irrigation no estimate made.	
III.	Revised estimated total cost (1932):	
	a. reclamation:	
	schedule A:	$ 1,052,894
	schedule B:	$ 16,426,322
	schedule C:	$ 1,870,000
	total	$ 19,349,216
	b. irrigation:	$ 7,500,000
	c. total (a) +(b)	$ 26,849,216
IV.	Amount spent by the end of 1932:	$ 13,300,000
V.	1932 estimates of additional amounts needed in order to complete works[3]:	$ 14,300,000
VI.	1932 estimates of the amount needed for the mise envaleur of the works:	$ 11,000,000
VII.	(IV+V=VI):	$ 38,600,000

[1]In the total cost are included the fee and the general expenses.
[2]The original estimates made in 1925 by Foundation Co. and which are mentioned in the contract.
[3]These estimates were made by the Ministry of Agriculture in early 1932, and they include the cost for the irrigation works.

Compiled from: the Vardar Valley contract, G.Haritakis (ed.), Economic Yearbook of Greece for 1931, (Athens, 1932), pp.112,123. Also, Supreme Economic Council, The Exploitation of the Lands Reclaimed From the Productive Works in Macedonia, (Athens, 1935), p.14.

We do not know the exact figures involved. However, it is clear that the final cost of the works exceeded many times over the original estimates that had been made when the contract was signed in 1925. At that time, the estimated cost had been in the area of $26,000,000. (See Table 11 above) By the end of October 1932 $13,300,000 had been spent on the project. During 1933-1936 an additional $7,000,000 was spent.[99] We have no information on the cost of the works after the state agency took over the scheme in 1937. However, it must have had large dimensions considering that 67% of the land drained and 62.5% of the land protected from floods was completed during the forties.[100] (See Book II, Section III, Chapter Five, Table 3)

Table 11 above portrays the estimates made by various sources regarding the total cost of the works. It must be underlined that these estimates are of an ex ante nature- i.e. they were made prior to the completion of the works. We have no information regarding the breakdown of the cost of the works. However, according to one source the contractor until December 31 1929, had kept its general expenses at a level substantially lower than the plafond that had been specified by the contract. We do not know if after this date, The Foundation Co. continued to display such a conscientious behaviour.

As the years went by The Foundation Co. maintained a good image. Nevertheless, we cannot fail to point out once again that the handing over of the works to the state was marked with a number of disagreements.[101] In 1937 the government removed the contractor from the project. It does not appear that this 'nostrification' move was taken because there was any **fundamental** disagreement with the company. Instead it should be seen as a product of two interrelated developments. First, the rise of economic nationalism in Greece. Second, the state at this stage had begun for the first time to show signs of economic planning. (The state agency which finished the scheme took over also the completion of the other large reclamation schemes.)

To recapitulate. The basic failing of this infrastructure project as already mentioned was the fact that it proceeded with considerable delay. A viscous circle set in whereby halfcompleted segments deteriorated and led to the need for repairs and a rise in expenditure. The latter in return led to further delays. Another failing, which the contemporary foreign supervisors of

Greece stressed was the absence of complementary works.[102] The serious study of best crops, preparation of markets, the undertaking of irrigation works etc., did not proceed pari passu with the drainage scheme. These should have taken place in order to ensure the success of the commercial side of the project. In the last analysis, the state due to its financial constraints, adopted a piecemeal approach. In the case of the Athens water works, a water supply cum sewage system should have been built. As for the Vardar valley, a radical solution would have been for a drainage cum irrigation scheme plus all the necessary secondary works to have been undertaken concurrently. The state was naive to believe that it could revolutionize Greek agriculture, multiply the yield of cereals, and achieve a substantial increase the production possibility frontier simply by draining land.[103] It should have tackled the problem in a comprehensive manner. But to make such a statement is to verge into counterfactual history, for the basic prerequisites were absent: the ability to 'plan' and borrow the required foreign capital for such projects.

2.6.3. The concession that never was

The concession granted in 1925 to The Foundation Co. is only of purely academic interest for it never materialized. It pointedly reflects the rising sentiment of economic nationalism following the world economic crisis and the drying up of foreign capital inflow. The story was as follows. The "Pangalos" contract of September 1925 had laid down in full detail the terms under which The Foundation Co. would have operated for thirty years (either alone, or in cooperation with whoever it chose) **the concession for the maintenance of the Vardar valley reclamation works.**[104] This concern, was to be set up a few months after the termination of schedule A.[105] In essence, as Table 12 demonstrates it was to be an agrarian development agency and not a simple maintenance company. For, in addition to maintaining, improving, and extending, the reclamation works, the concessionaire would be obliged to contribute in a direct manner to the economic development of the Vardar valley.

Table 12

Obligations of the Concessionaire According to the Vardar Valley Contract of September 1925

i)	The training of farmers that would be settled on the drained land in a scientific method of cultivation;
ii)	The promotion of cattle breeding in the valley, encouragement of beetroot production, and the creation of a sugar industry;
iii)	The establishment and running of a model agricultural and stock-breeding farm;
iv)	The building and maintenance of wharehouses sufficient for the requirements of the valley;
v)	To supply to the farmers of the Vardar valley at reasonable prices with seeds, manure, agricultural machinery, and tools.

From the above list it is apparent that the state would rely heavily on the concessionaire for the creation of an independent peasant class and the stimulation of production in the three staple food items (cereals, meat, and sugar) over the whole breadth of the Vardar valley, and not only over the lands to be drained.[106] The functions assigned to the concessionaire being of a broad developmental nature, the government assured that its control over the maintenance company would be stricter and narrower than that which had been prescribed for the Athens water works. Two government officials would be appointed on the Board of Directors of the maintenance company, whereas in the case of the Societe des Eaux, no such provision had been made.[107] Moreover, the minister of agriculture would supervise (albeit, loosely) the activities of the company.

Schedule A was not completed in 1927, as initially planned, but in October 1930. When this occurred, the contractor notified the other two members of the Hellenic Construction Co., and asked them if they were still interested in undertaking the option that had been granted to them in the private agreement of April 7, 1925, to form a maintence company. Gordon Leith & Co. was no longer interested in participating in the concession. The National Bank of Greece, which after the dissolution of the Syndicat des Etudes et des Enterprises in February 1930 had become the third member of The Hellenic Construction Co., was also against participating.[108] This change in attitude was not without reason.[109] The two dissenting members (i.e. Gordon Leith & Co. and the National Bank of Greece) claimed that they did not at the moment have adequate funds at their disposal in order to participate in the maintenance company.[110] Indeed, given the wide spectrum of activities this concern would have, it was apparent that a large capital outlay would be necessary. (Let us at this point, remind the reader that the private agreement of the three members of the Hellenic Construction Co. was signed in April 1925, whereas the contract for the reclamation of the Vardar valley was concluded in October 1925. Thus, the members of the Hellenic Construction Co. when signing the private agreement had not known that the concession would entail such a wide range of activities). Nevertheless, it appears that what basically scared off the two dissenters was not the size of the capital outlay per se, but the fact that they were convinced that the terms as posed in the 1925 contract would preclude the concessionaires from enjoying a "respectable" profit from the operation of the maintence company. According to Gordon Leith and the N.B.G.: i) the monetary fee to be awarded to the concessionaire by the state was inadequate; and ii) the 40,000 stremmas of the reclaimed land from schedule A which the government would 'donate' to the concessionaire for a period of thirty years was not of a high quality (i.e. its exploitation would not secure a high return).[111] Thus, these bankers stated that they would participate in the concession only if the builder renegotiated the terms of the contract with the government and succeeded either to secure a larger guaranteed income, or to relieve the concessionaires of the obligation to undertake any activity other than the maintenance of the works.[112]

It is not known whether the contractor actually made an attempt to renegotiate the terms of the 1925 contract with the government. For two years the question of how the reclaimed state lands were to be maintained and who would develop them remained open. During this time, The Foundation Co. held numerous meetings with the two other members of the Hellenic Construction Co.[113] But, the N.B.G. and Gordon Leith were adamant in their refusal to participate in the management concession under the existing terms. (Could it be that Gordon Leith's indifference was in large part a reflection of Hambros' growing disinterest in foreign investments after 1931?)[114]

On its part, The Foundation Co. was not prepared to act alone in an enterprise of this size. Clearly, The Foundation Co. must have been relieved when on March 31 1932, it was asked by Premier Venizelos to "hand over to the Greek government its right to set up a maintenance company".[115] Venizelos had good reason to "breach" the 1925 contract. Times had changed and the state partly by necessity, and in part by choice, had become more nationalistic and confident in its powers. Moreover, it is obvious that Venizelos had become disillusioned, and bitter with Greece's supervisors and foreign capital in general. He believed that they had betrayed Greece (on such issues as the war debt and 1918 book credits) and that they did not live up to their 'promises' with respect to the flow of capital for the development of the Greek economy. It is worth noting that he asked The Foundation Co. to hand over its right a few weeks before he announced Greece's decision to go off the gold standard and declared a partial default on her foreign loans.[116] Venizelos had nothing to lose by "insulting" a large foreign firm. He knew all too well that foreign capital would no longer be forthcoming. By 1932 it was clear to all that the principal international money markets would remain closed for some years.

In addition to these considerations there was a 'political' problem. As already mentioned above, the land that was to be reclaimed through the drainage of lakes and swamps was to belong to the state exclusively. The latter had advertised for a number of years that it intended to use this land for the settlement of the refugees. However, by 1932, only 36,000 stremmas had become available. According to the contract signed in 1925, the concessionaire had a right to 40,000 stremmas of state land for thirty years. Thus, had the concession been set up this would have made the government very unpopular in the eyes of the refugees. At this point we cannot fail to note that Venizelos was heavily dependent on the refugee votes.

After the concession was cancelled, the Venizelos government asked the National Bank to set up a company for the maintenance of the works with the Bank of Greece and the Agricultural Bank of Greece. This purely Greek 50 year public benefit maintenance company was to undertake the management and the exclusive exploitation of the all of the state lands that would be made available through the Vardar and Struma Valley drainage schemes.[117]

The idea of the creation of a state company to be run by Greek banks was received well by grassroot organizations, such as for example the union of agriculturists in Macedonia and Thrace, for it was assumed that the land would be cultivated on a cooperative basis.[118] On the contrary, Greece's foreign supervisors viewed this turn towards cooperativism, and "statism" in the realm of agriculture with suspicion. Finlayson in particular, declared his disatisfaction with this decision and suggested that some independent organization along the lines of the R.S.C. be set up instead.[119] The weakness of the state is highlighted from the manner in which it handled this issue. For it may have taken away from foreign interests their right to a concession, but it was not in a position to set up a company on its own. The National Assembly refused to pass the bill Venizelos presented for the creation of a maintenance company to be run by Greek banks. Once again no decision was reached as the state faltered indecisive as to whether such a scheme should primarily have an economic or a social benefit character. Almost all of the land made available from the drainage of the two swamps from Schedule A (as already noted in the text) fell into disuse and was extensively trespassed.[120] Valuable time was lost and for a number of years what little soil was made available was waiting in waste! What irony. This episode brings to our mind the observation of the marxist economist Paul Baran that a basic problem of underdevelopment is not the lack of resources but how they are put to use.[121]

Finally, let it also be noted that the discussion surrounding the maintenance company is of interest in one more respect. It highlights the changes which had taken place regarding the role of the N.B.G. by the early thirties. For, it consistently refused to participate in a concessionary company to be set up by the members of The Hellenic Construction Co. with the excuse that it lacked the necessary funds, whereas it was eager to take part in a national public benefit company. As mentioned above this company would have had a more substantial capital outlay. The question that emerges is whether the N.B.G. deliberately worked against the creation of a concession by the members of the Hellenic, in order to facilitate the state to breach the contract of 1925, with respect to the maintenance company. The material does not permit us to answer this question. However, it depicts that the National Bank was involved in some double game. Apparently, at the same time that it was claiming to the contractor that it lacked the funds to participate in a maintenance company, it was secretly making arrangements with the state for the creation of a public benefit company to be run exclusively by Greek banking interests. Parenthetically, it should be underlined that the National Bank by 1932 had acquired a more diversified structure of investments and was no longer so closely attached to Hambros. To the extent that Hambros was affiliated with The Foundation Co. and Gordon Leith we can 'diagnose' read its indifference towards setting up the concession with these foreign interests as fitting into this pattern.[122]

2.7. Conclusion

The scheme suffered from the fact that the works began before final arrangements were made regarding long-term financing. What started out as a pure foreign investment ended up as an American- Hellenic venture both with regards to finance as well as the construction process. It is of interest to the student of foreign finance not only because of its large dimension but also because it uncovers: the existence of a banker's consortium operating outside the framework of official supervision; and the ways in which the internal weaknesses of the state impeded the flow of foreign capital into Greece and the optimum use of the new infrastructure provided. Moreover, it fits in with the missed opportunities theme that runs throughout this thesis.

References

1. In 1920 agriculture absorbed 70% of the active labour force. Concentration on cereals was pronounced considering that approximately 50% of the cultivated land was devoted to its cultivation. Sources: K.Tsoukalas, Εξάρτηση και Αναπαραγωγή. Οικονομικός ρόλος των εκπαιδευτικών μηχανισμών στην Ελλάδα 1830-1922 (Dependence and Reproduction. The economic role of the educational mechanisms in Greece), (Athens, 1977), p.183. Also, Economic Yearbook of Greece for 1929, p.45.

2. Greece imported over a quarter of her requirements in wheat at the time. For 104 days no cargo of wheat passed through the ports that were blockaded. Campbell and Sherrard, *op.cit.*, p.121

3. Premier Venizelos, back in 1910, had been the first Greek politician to declare that Greece should develop its sources and strive for "selfdependence" in basic goods. Indeed, he became the prime spokesman on this topic. Sources: *Ελεύθερον Βήμα*, November 14, 1910. Also, I. Pepelasis Minoglou, "Ο Βενιζέλος και το Ξένο Κεφάλαιο" ("Venizelos and foreign capital (1918-1932)"), in Greek Literary and Historical Archive, Benaki Museum, Συμπόσιο για τον Ελευθέριο Βενιζέλο, (Symposium on Eleftherios Venizelos), (Athens, 1988), pp.145-168.

4. In Greece there was a pressing need to expand the cultivable territory. Its non agricultural territory (uncultivable land) was extensive. In 1928, as a percentage of the total area of the country, it was 51.5%, compared to 20-25% in the other Balkan nations, 5.8% in France, and 5.3% in Italy. Source: La Grece Actuelle, (Athens, 1933), p.146.

5. Daphnes, *op.cit.*, Vol. B, p.89. Also, La Grece Actuelle, *op.cit.*, p.149. Also, *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος*, June 1925, Vol. B, p.137, where it is stated that the yield of 100 stremmas of "new" land would be 10 bushels, whereas the national average was 5-6. Also, for the fact that Greece the wheat yield per hectare in Greece was the lowest in the Balkans and equivalent to 1/3 of the European average, see: Ch.Evelpides, Les Etats Balkaniques, (Paris, 1930), p.194.

6. For a description of Greece's radial land reform, see: Evelpides, (1944), *op.cit.*, *passim*. Also, Sideris, *op.cit.*, *passim*.

7. Freris, *op.cit.*, p.46.

8. The land reform policy which affected a total of 11,400,000 stremmas was inaugurated 'on paper' in December 1917 with Law 1072. Source: La Grece Actuelle, *op.cit.*, pp.155-160. In 1919, two firms prepared reports on the realization of reclamation schemes. The Societe Francaise d' Enterprises on the reclamation and irrigation of the Vardar valley in Western Macedonia; and the British firm Sir John Jackson, on the reclamation of the Struma valley in Central Macedonia. Details on these reports are not known (i.e. what they proposed and whether they were of high quality). Sources: Supreme Economic Council, Η Εκμετάλλευσις εκ των Παραγωγικών Εργων εν Μακεδονία (The Exploitation of the Lands Reclaimed From the Productive Works in Macedonia), (Athens, 1935), p.87. Also, M.F.A./H.A.: 1922-1923 L.N./D2, File 76: Sakellaropoulos to ministry of foreign affairs, April 27, 1923. Also, indicative of growing interest in land development was that in 1918 a department of hydraulic works was set up in the ministry of communications, and in 1922 law 2853 was passed in order to facilitate the implementation of land reclamation schemes.

9. When the 1,500,000 refugees arrived in Greece the population of the country was 5,250,000. Given the fact that after the refugee influx about 430,000 moslems left Greece the net increase in the population of the country was around 1,100,000 La Grece Actuelle, *op.cit*, pp.235-237.

10. The best description of the interrelationship between the refugee influx, the land distribution, and the land reclamation schemes, is provided in: Pentzopoulos, *op.cit*, pp.130-150.

11. According to certain reports around 70% of the population in Macedonia were affected on an annual basis from malaria. It was noted that on average 33% of the population of the Salonika area suffered from malaria, and in some parts near swamps and lakes the rate was 100%. Most of the population in the latter areas was composed of refugees. Thus as a result the incidence rate among the refugee population was higher than among the local population. See: *Ελεύθερον Βήμα*, July 17, 1925.

12. For details on the Lake Copais Co. affair, see: *Μηνιαία Οικονομική και Κοινωνική Επιθεώρησις της Ελλάδος*, September 1925, issue 5, pp.414-436.

13. The firm 'Lysimahia' was assigned in 1925 with the drainage of swamps in Lysimahia and Trihonia covering 25,000 stremmas. In 1930 this same company was asked to drain the 61,000 stremmas Lesini (Xiromerou) swamp. The 'Hydraulic Works of Laconia' in 1928 undertook the drainage of the 8.100 stremmas Trinassou swamp. Finally, the Kanzouh Co. in 1929 was assigned the drainage of the 32,000 stremmas Xyniad lake. Source: A.G. Dolianitis, Αι Αποξηράνσεις των Ελών και Ενιων Λιμνών και Λιμνοθαλασσών της Χώρας (The Drainage of the Swamps, Lakes and Lagoons of the Country), (Athens), p.14.

14. The two firms were: The 'Hydraulic Works of Laconia' and 'Lysimahia'. In 1931 the state provided a guarantee so that they could borrow funds in order to complete the work they had started and in return they agreed to state intervention regarding the construction of the works and the operation of the concession they had been granted. Source: Dolianitis, *op.cit.*, p.27.

15. For a brief description of these contracts see: Stephanides, *op.cit.*, pp.248-254.

16. The estimated cost of the Thessaly scheme is not known.

17. See: G. Daphnes, *op.cit.*, *passim*; History of the Greek Nation, *op.cit.*, *passim*; Karamanlis, *op.cit.*, *passim*; Bernaris, *op.cit.*, *passim*.

18. Out of the 1,300,000 stremmas only around 1,100,000 was to be of a cultivable quality. (See below Table 9.)

19. In 1922 the total area of cultivated land in Greece, amounted to only 12,000,000. See: *Οικονομικός Ταχυδρόμος*, April 26, 1973, p.52.

20. This was the estimated figure given by the builder in 1925. We do not have the exact figure of what the project actually cost.

21. Regarding the use of labour in this work the exact figures are not known. However, from the material it is possible to infer that these works must have employed something in the area of 3,000-4,000 workers. See: Economic Yearbook of Greece for 1931, p.111. Also, Economic Yearbook of Greece for 1932, p.349. Also, B.W.Huntsman, "The Salonika Plain Reclamation Works", *Journal of the Institution of Civil Engineers*, Vol. 5, 1936-37, p.266.

22. For an earlier attempt to award a franchise to foreign and Greek concession hunters regarding a series of public works enbloc, see: *G.G.*, First issue, Folio 84, March 31 1924. Also see: U.S.A./NAT/MA5/S.D./M443/41 868.40 Industrial Matters: American Consul General in Greece to Secretary of State, April 6,1923. For Venizelos' manifesto, see: I. Pepelasis Minoglou, *op.cit.* (1988), pp.151-152.

23. For inundation of Salonika see, M.Sakellariou (ed.), Μακεδονία 4000 χρόνια Ελληνικής Ιστορίας και Πολιτισμού (Macedonia 4000 years of Greek History and Civilization), (Athens, 1990), p.513.

24. The international tender for the reclamation of the Struma, and Thessaly projects was announced jointly on May 10 1928.

25. *Ελεύθερον Βήμα*, September 21, 1924. Also see: H.M.S.O., Department of overseas Trade, (R.F.H., Duke), p.40.

26. The interest of a British firm is also mentioned in the N.B.G. archive, but the company's name is not specified. Source: N.B.G./H.A., New Archives Γ, File 10, memo on the Drainage irrigation of Salonika, prepared by the secretariat of the N.B.G. Also we know nothing about the terms offered by Stewart or the other firms interested in the project.

27. Stewart Co. according to the Department of State was one of the largest companies in its lines of business, and it had undertaken plenty of projects for the U.S. government. Infact the department of State highly recommended it. Source: U.S.A./NAT/MA5/S.D.M443/41/Industrial Matters: J.Stewart & Co. to Senator W. Edge, September 24, 1925.

28. For the activities of the Foundation Co., see: *Μηνιαία Κοινωνική και Οικονομική Επιθεώρησις*, June 1925, pp.129,135. Also, Lewis, *op.cit.*, pp.378-379.

29. N.B.G./H.A.: New Archives Γ, File 10, National City Bank of New York to N.B.G., April 22, 1925.

30. It is noteworthy that these close ties were developedtly with the New York headquarters, and not the London subsidiary. Source: U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: State Department to American Legation in Athens, June 21, 1926. Also, U.S.A./NAT./MA5/S.D./M443/41/868.40 Industrial Matters: Report prepared by the Division of Near Eastern Affairs, and dated August 12, 1925.

31. The Prime Minister, incidentally, in 1917 had served under Venizelos as the country's first minister of agriculture. See: *Ελεύθερον Βήμα*, April 3, 1925.

32. *Ελεύθερον Βήμα*, April 7, 1925.

33. For a description of the problems facing Michalakopoulos, see: G.Daphnes, *op.cit.*, Vol.A, pp.271-275.

34. These were the works for the Port of Pireaus, and those for the sewage system of Salonika. According to this system, beforehand the contractor stated what the exact cost of the works would be.

35. *Ελεύθερον Βήμα*, July 25, 1925.

36. Michalakopoulos during his short stay in power made quite a few cabinet reshuffling. See: Provatas, *op.cit.*, pp.457-459.

37. *Ελεύθερον Βήμα*, June 21, 1925.

38. *Ελεύθερος Τύπος*, June 15,16, 1925.

39. Such rumours had circulated again in the past. (See: chapter on the refugee loan, and the Athens water works). For their reappearance in connection with the Vardar valley scheme, see: *Ελεύθερον Βήμα*, June 21, 1925.

40. *Ελεύθερον Βήμα*, July 10, 1925. Pangalos became particularly perturbed when rumours circulated that Diomedes had been involved in the coup of November 1925, which aimed at overthrowing him. Eventually, Diomedes chose to withdraw into a self-imposed exile for a few months. See: *Καθημερινή*, December 14, 1925.

41. See: reference 89 in Book II, Section I, Chapter 1.

42. He claimed that he bribed several leading papers to carry out a campaign to force the government to ratify the contract. U.S.A./NAT/MA5/S.D./M443/41/868.40 Industrial Matters: Remington to Dulles, November 2, 1925. Also, *Ελεύθερον Βήμα*, July 21, and 25, August 6, 1925.

43. U.S.A./NAT/MA5/S.D./M443/41/868.40 Industrial Matters: Report prepared by Dulles, Chief of Division of Near Eastern Affairs, November 5, 1925.

44. U.S.A./NAT/MA5/S.D./M443/41/868.40 Industrial Matters: Remington to Dulles, November 2, 1925.

45. The dictator appointed an advisory "parliamentary" committee to study this new contract and to advise the cabinet whether to ratify it, not surprisingly did not bring forward any objection, and proposed modifications. See: *Ελεύθερον Βήμα* September 23 & 24, 1925. This "ratified" contract was applied without ever being seriously modified by the National Assembly after its functions were eventually restored in late 1926. (For details on the legal documents see below section 2.6.)

46. For the securities assigned see in the text Table 4 and articles 28, 29 of the contract.

47. U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: memorandum pertaining to the Foundation Co. and Belgian contracts, and the Greek debt situation, Office of the Economic Advisor, July 3, 1926.

48. The share capital of the Hellenic Construction Co. was fixed at £15,000 to be equally divided by the three participants. For details, see: N.B.G./H.A.: New Archives Γ, File 10, Memorandum and Articles of Association of The Hellenic Construction Co., London, May 28, 1925. For a description of the second investment trust to be established by the N.B.G. and foreign interests in the twenties, see: Book I, Section III, Phase Three, Part II.

49. The exact purposes of the Trust are revealed in detail in the private agreement which was made in April 1927, see: N.B.G./H.A., New Archives Γ, File 10: "Hellenic Construction Co. - Agreement entered on Seventh April 1925" between: The Foundation Co, The syndicat d' Etudes et d' Enterprises, and Gordon Leith & Co. For a description of why the Articles of Association do not give aprecise picture of the objects of the Trust, see: N.B.G./ H.A.: New Archives Γ, File 10: Diomedes to the Secretariat of the Hellenic Construction Co., October 1, 1925; and Gordon Leith & Co. to Diomedes, October 22, 1925.

50. N.B.G./H.A., New Archives Γ,File 10: Gordon Leith to The Foundation Co., November 14, 1925.

51. For the reclamation of the Vardar valley the commission would amount to only 5% because The Foundation Co. had on its own already borne substantial expenses for the materialization of this project. Source: N.B.G./H.A., New Archives Γ, File 10: Gordon Leith to Diomedes, October 22, 1925.

52. N.B.G./H.A., New Archives Γ, File 10: Gordon Leith to Diomedes, July 9, 1925.

53. Notably in the press comments appeared that showed that The Foundation Co. cooperated closely with Hambros and Gordon Leith, but their was no mention per se of the Trust. See: *Ελεύθερον Βήμα*, May 21, 1925.

54. Whereas the formation of the General Electricity Co., which was a Anglo-Hellenic syndicate set up in 1925, in Athens, by the British firm Power & Traction Finance Co. and the syndicate of Greek Banks, was made public. See: National Bank of Greece, <u>Απολογισμός του 1925</u> (Report for 1925), Athens 1926, pp.XIX-XXII.

55. *G.G.*, First issue, Folio 295, October 8, 1925.

56. According to the original contract the loan would have terms at least as good as those of the First Refugee Loan. For this modification, see: *G.G.*, First issue, Folio 275, November 13, 1927, Law 3419.

57. *G.G.*, First issue, Folio 133, Law 4025, April 2, 1929.

58. *G.G.*, First issue, Folio 170, May 16, 1932, law 4571.

59. The financial terms pertaining to the financing of the project were described in articles 26-30, of the basic contract.

60. N.B.G./H.A., New Archive Γ, File 10: Diomedes to Eric Hambro, May 8, 1925.

61. U.S.A./NAT/MA5/S.D./M443/41/868.40 Industrial Matters: Remington to Dulles, November 2, 1925.

62. The fact that the National Bank participated by half in the advance is mentioned in: U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: July 25 1926, report on a conversation between Quilter and Harrison on the subject of the Vardar reclamation contract.

63. For the terms of the advance see: article 30 of the contract signed on September 7, 1925. And for when the works started, see: N.B.G./H.A., New Archives Γ, File 10, Diamantopoulos to the minister of communications, March 8, 1928. The contract stipulated that the completion of schedule A would take place 24 months, i.e. two years after the ratification of the contract. See: contract, articles: 3,7, and "Schedule A".

64. According to secret pact the Syndicat had a moral obligation to provide 25% of the amount. That the N.B.G. alone provided 50% corroborates its financial prowess as well as its eagerness to see this scheme materialize.

65. N.B.G/H.A.: New Archives Γ, File 10, Quilter to Greek Legation in London, March 16, 1926; Quilter to Drossopoulos, February 8, 1928.

66. For the repetitive demands for funds, see: *Καθημερινή*, December 11, 1925.

67. U.S.A./NAT/MA5/S.D./M443/41/868.40 Industrial Matters: Remington to Dulles, November 2, 1925.

68. *Ελεύθερον Βήμα*, May 21, June 21, 1925. Also, N.B.G./D.A., Document 319, Tsouderos to Diomedes, January 29, 1926. Also: N.B.G./H.A., New Archives Γ, File 10: Diomedes to Tsouderos, March 5, 1926.

69. N.B.G./H.A., XXII Banks, ID Foreign Banks, File 70 Correspondence with Hambro: Hambro to Diomedes, October 21, 1925.

70. *The Economist*, January 9, 1926.

71. For the imposition of the war debt embargo, see: Book I, Section II, Part III.

72. N.B.G/H.A., ID Foreign Banks, File 70,Eric Hambro to Drossopoulos October 21, 1925.

73. N.B.G./H.A., New Archives Γ, File 10: Remington to Filaretos, December 30, 1925.

74. N.B.G./H.A.: New Archives Γ,File 10: Filaretos to Diomedes, January 26 1926. Expost, it is apparent that the increase in the supply of funds could have been postponed. For in actual fact, the amount spent on the works did not surpass $550,000 during the first eighteen months. Source: U.S.A./NAT/MA5/S.D./M443/41/868.40 Industrial Matters: Report of a conversation of the vice president of The Foundation Co. with the Assistant secretary of the Department.

75. N.B.G./H.A., New Archives Γ, File 10: Remington to Filaretos,January 14, 1926. Remington was not alone in insisting on the issue of consolidation. This subject worried also the N.B.G. See: N.B.G./D.A./319, Tsouderos to Diomedes, January 29, 1926.

76. This scenario was suggested by the N.B.G. See: N.B.G/D.A., Document 287: Filaretos to Diomedes, December 16, 1925. This temporary $ loan as was the case with the advance, was granted at par. However, it had an interest rate of 7%, and a commission of 1%. The guarantees provided by the government were the same with those that the state had allocated in the original contract for the bond loan. The builder had demanded that the same guarantees be given as those for the bond loan, namely that it be secured by the surplus revenues collected. Sources: N.B.G./H.A., New Archives Γ, File 10, Quilter to N.B.G., March 16, 1926. Also see: article 28 of the original contract, and article 2 of the supplementary contract of May 11, 1926.

77. N.B.G./H.A., New Archives Γ, File 10: Quilter to N.B.G., March 16, 1926.

78. N.B.G./H.A., New Archives Γ, File 10: Hambros to Diomedes, March 26 1926; Anastassopoulos to Tsouderos, March 28, 1926.

79. N.B.G./H.A.,New Archives Γ, File 10: Private Agreement of May 15, 1926. Also for the fact that the Foundation 'knew' of the Hambros involvement, see: U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: Report of a conversation held between Quilter and Harisson on the subject of the Vardar reclamation contract, July 25, 1926.

80. U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: British Ambassador in Washington to State Department, August 23, 1926.

81. U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: Grew to British Ambassador, September 1, 1926.

82. U.S.A./NAT/MA5/S.D./M443/41/868.40 Industrial Matters: Division of Near Eastern Affairs to Grew, March 14, 1927.

83. U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: Memorandum of the office of the economic advisor, on the Foundation Co., and the Belgian contracts and the Greek debt situation.

84. N.B.G./H.A., Foreign banks, File 70: E.Hambro to Diomedes, October 21 1925.

85. For the government of National Unity's attempt to convince the L.N. to supervise a refugee cum public works loan, see: M.F.A./H.A., File 1927 A/6/a Supplementary refugee loan: Dendramis to Michalakopoulos, January 26, 1927. No loan was raised along the Hambros lines for League was in favour of combining a supplementary refugee loan with a loan for stabilization-the latter as time went by seemed as a sine qua non if Greece was to stabilize financially.

86. See: article 1 of the contract. For the fact that The Foundation Co. was eager to undertake an irrigation scheme, see: N.B.G./H.A., New Archives Γ, File 10: private agreement of April 7, 1925. Also see: N.B.G./H.A., New Archives Γ, File 10: Bayley to The Hellenic Construction Co. April 4, 1936; Doty to The Hellenic Construction Co., December 28, 1938.

87. For the disputes, see: N.B.G./H.A., New Archives Γ, File 10: Hankey(?) to Arliotti, January 1939. For a detailed technical description of the project, see: Huntsman, *op.cit.*, pp.243-286.

88. For a critism of the cost of the project, see: the article of the 'militant' Kitsikis, *op.cit.*, p.193.

89. For the terms of the basic contract relating to the construction of the project, see: articles 1-25.

90. See the Vardar Valley contract article 4.

91. From Book ii, Section III, Chapter Four, Table 2, it construes that they were finished before 1951. Unfortunately, we do not know the exact date of completion.

92. Unfortunately, we do not know how much exactly was spent on schedule A alone. We have already referred in the previous pages to the fact that its estimated cost was $1,132,000. Schedule A was finished in October 1930. The procedure for the handing down of the works to the government lasted, however, one year. Thus, effectively, this part of the work was "ready" for cultivation in 1931. Schedule B was finished in December 1937, and schedule C (which incidentally began after 1932) was finished sometime in late 1939-early 1940. Sources: N.B.G./H.A. New Archives Γ, File 10: Doty to the Hellenic Construction Co. December 28, 1938; also memo prepared by Dimakopoulos. For the fact that the contractor began schedule A promptly see N.B.G./D.A., Document 319, Filaretos to Diomedes, December 16, 1925.

93. According to the ministry of communications 70% of schedule B had been completed. This must have been farfetched claim. Source: G.L.H.A./D.A.: File 36, Document 8, memo prepared by Satolias, July 1932.

94. G.L.H.A./D.A. File 36, Document 16 titled: The Foundation Works in the Salonika Valley, How the funds were used - memo prepared on March 22, 1930.

95. That this was the plan, at least back in the mid twenties, i.e when it was believed that the works would be completed by 1932, is testified by the assertion made by Quilter who worked for the Foundation Co. that: the R.S.C. followed the progress of the works and considered that it was vital and essential to the settlement of the refugees. Source: U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: Quilter to Lelan Harrisson, June 28, 1926

96. See reference 94 above.

97. U.S.A./NAT/MA5/S.D./M443/41/868.40 Industrial Matters: Memorandum of a discussion between Shaw and Ferebes, March 15, 1927.

98. See: letter of Bailey to the Hellenic Construction Co., April 4, 1936, in which it was stated that due to the floods of the preceding winter important damages had been made, and that it would take the builder two years to make these repairs. Source: N.B.G./H.A., New Archives Γ, File 10.

99. In 1932 The Foundation Co. claimed that only an additional $2,000,000 would be necessary to complete the reclamation works because it would introduce large soil excavators. Source: G.L.H.A./D.A., File 37, press clipping of an article by Filaretos, May?, 1932.

100. The only reference we have to post 1932 expenditure is the estimation made by the Supreme Economic Council in 1935 that schedule C would cost $1,870,000. Source: Supreme Economic Council, (1935), *op. cit.*, p.14.

101. It was necessary for the two parties to resort to arbitration. Source: N.B.G./H.A., New Archives Γ, File 10: Doty to the Hellenic Construction Co., December 28, 1938.

102. B.G./T.A., Document 49/1, report prepared by Finlayson, on October 2, 1930.

103. K.Kostis, <u>Αγροτική Οικονομία και Γεωργική Τράπεζα - όψεις της ελληνικής οικονομίας στο Μεσοπόλεμο</u> (1919-1928), (Agricultural Economy and the Agricultural Bank - facets of the Greek economy during the interwar years, (1919-1928), (Athens, 1987), p.361.

104. For the terms pertaining to the concession see the basic contract, articles 31-37

105. The initial plans were for this schedule to be completed in 1927. Had this proved to be the case, the management company would have been put into operation in early 1928 at the latest. At the end of the thirty year time period the property of the maintence company would automatically be appropriated by the state. By property meaning the installations, and all the movable and immovable property of the company. Also it was agreed, that the government could, if it so wished, buy out the concession, 20 years after the date of its creation.

106. Presumably, these development activities were to be financed by a state subsidy to the extent that the concessionaire would have a minimum guaranteed income in addition to the land it would be allowed to exploit.

107. The one official was to be appointed by the ministry of communications, and the other by the ministry of agriculture.

108. For the dissolution of the banking syndicate see: N.B.G./H.A., New Archives Γ, File 10: Minutes of the Board of Directors, February 1, 1930.

109. The reasons for this shift in interest are well portrayed in a report which the Greek engineer and close associate of the National Bank (Koryzis) prepared for The Hellenic Construction Co. in 1930. Source: N.B.G./H.A., New Archives Γ, File 10: Report prepared by A. Koryzis, March 14, 1930.

110. N.B.G./H.A., New Archives Γ, File 10: The minutes of an informal meeting of the shareholders, held on February 25.

111. According to the contract of 1925, the fee to be awarded to the concessionaire would be equivalent to 10% of the sums spent on the maintenance of the works. It was not clear whether this fee would be equivalent to 10% of the cost of the maintenance or the cost plus general expenses. Also, it is not clear whether the 40,000 stremmas to be allocated to the concessionaire for 30 years whether it was to be settled with labourers who would pay money rent or supply part of the harvest to the company. (Most likely it was the first.)

112. N.B.G./H.A., New Archives Γ, File 10, (X) to the secretary of The Hellenic Construction Co; memo prepared on the basis of a meeting held at the N.B.G.on January 20 1932, between The Foundation Co. and the ministry of agriculture.

113. Such meetings which we have not already mentioned in the text are those of: November 20, 1931; January 6,18, 1932. See memos in: N.B.G./H.A., New Archives Γ, File 10.

114. For Hambros turn towards domestic loan issues in the thirties see: Bramsen and Wain, *op.cit.*, pp.394-395.

115. N.B.G./H.A., New Archives Γ, File 10, memo regarding the creation of a maintenance company, April 1, 1932, between the N.B.G., and The Foundation Co.

116. Karamanlis, *op.cit.*, pp.302-308.

117. This was to be a major concern, and was to have a share capital of around $318,000. N.B.G./H.A., New Archives Γ, File 10: Governor of the N.B.G. to the Treasury, March 15, 1934.

118. G.H.L.A./D.A.,File 37, Document 17: memo presented by the agriculturalists of Macedonia and Thrace Venizelos, August 9, 1932. Also, G.L.H.A/D.A., File 37, Document 24, report presented in parliament on the exploitation of the improved lands in Macedonia, on August 11, 1932. Also for Italian bonifica integrale which impressed many in Greece at the time, see: S.B.Clough, The Economic History of Modern Italy, (New York, 1964), pp.241-244.

119. G.L.H.A./D.A., File 37, Document 26, memo prepared by Finlayson (undated). For the fact that not all foreigners agreed with Finlayson, see: British engineer, in 1932, had suggested that the state undertake on its own the exploitation and management of the works.

120. Supreme Economic Council, (1935), *op.cit.*, p.51, report of Bailey. For a presentation on the debate on the exploitation of the reclamation schemes, see: Psalidopoulos, *op.cit.*, pp.361-369. Also see: references 25 and 27 of Book II, Section II, Chapter Four.

121. P.Baran, The Political Economy of Growth, (New York, 1957).

122. The N.B.G. in two instances in the thirties showed that it preferred to work 'separately' from Hambros. For example the N.B.G. proposed in 1933 that the Galileo electricity co. (which was partly owned by the Hellenic Trust) come under its control. Source: N.B.G./H.A., XXIII, Companies, Prometheus File: Drossopoulos to Freme, June 10, 1933. Another example is the wish of the N.B.G. to participate separately from Hambros in the new Gas concession for Athens. Source: N.B.G./H.A., XXV, Public works, Electricity works, File 7: Hambro to Drossopoulos, November 6, 25 1935, and February 19 1937; also, Drossopoulos to Hambro November 13, 1935.

Chapter 3

The Pangalos Fiasco: The Belgian Railway Scheme

The year 1925 opened with Greece well on the road of development borrowing. However, the contract for the so-called Belgian railway scheme signed during the year showed that previous bad habits had not vanished. Railways were the one area of infrastructure with which the state was familiar. However in this instance apart from the fact that priority was given to military and not economic considerations, the problem was that midway through the project the government changed its mind about where exactly it wanted a new line to be built. This scheme can be singled out as it reminds one of Greece's past pattern of revenue borrowing and indicates that policy change is often a 'bumpy' and non linear process characterized by periodical retrogressions. Another notable characteristic is that it was the only Pangalos contract to be subjected to major alterations prior to ratification by the National Assembly after the downfall of the dictator.[1] The Greek Parliament fought the project basically for two reasons. It wanted to rid the scheme of its militarist features and Belgium was not a major source of funds, -i.e. there was no fear that Greece would have much to loose if Belgian capital was slighted. (Infact, no other funds were raised in Belgium throughout the decade under study.)

3.1. The Preliminaries

Negotiations preceding the project were conducted promptly. During the spring of 1925, the Michalakopoulos government considered repairing the main state railway running from Pireaus to Northern Greece. The line was in a deplorable condition: it was unsuitable for heavy traffic. New rolling stock was to be purchased and the network was to be extended. At first adding six extensions to the existing state network was contemplated. However, soon there was talk of building two new lines that were important from the point of view of national defense: the one would run from Egoumenitsa up to the Adriatic, and the other would connect Veroia-Kozani-Ioannina.[2]

The Societe Commerciale de Belgique declared an interest in the scheme. The S.C.B. was no newcomer in Greece. Infact, it was a major shareholder in the electricity company, which had supplied electricity to Athens prior to the creation of the Anglo-Hellenic syndicate headed by the British Power and Traction Co. and the National Bank of Greece.[3] Michalakopoulos rejected the Belgian offer on the grounds that the terms were highly disadvantageous for the Greek government.[4] However, for dictator Pangalos railway development was a top military and strategic priority and he literally rushed into signing a railway contract with the Belgians within weeks of coming into power.[5] Whether another contractor would offer better terms or how the railways should be improved so as to provide the maximum benefit to the country's pace of economic development was of little interest to the dictator. No tender was held and Pangalos and his cabinet completely ignored expert opinion at the department of public works and the State Railways that the contract did not serve the interests of the state from a financial and technical point of view.[6]

A British firm, Armstrong, had also declared an interest in undertaking the scheme while Michlakopoulos was still in office and, according to the Greek press, offered better terms.[7] Officially, the Pangalos government rejected the Armstrong offer because this firm could not provide financial support for the project and because the cost of transporting railway material from England to Greece was high.[8] This may have been so, but a more important factor was at work. Pangalos wanted to order rolling stock that suited his expansionary military plans. Had such an order been placed with a British firm the Foreign Office would have been furious given British criticism of Greek militarism.

Pangalos' keen interest in expanding the country's railway network and the importance he attached to it from a military viewpoint is confirmed by other projects initiated during his twelve month rule. In addition to the Belgian contract he also reached agreement with the French Chemins de fer de l' Orient for the purchase of the line running from Salonika to Monastir,[9] promoted the extension of the two largest private railway companies (P.A.P and Thessaly Railways),[10] and placed orders for 1,300 wagons with the Czechoslovakian firm Skoda, and for 100 with the interallied Commission in Instanbul and an unknown number from the Austrian firm Ringhoffer.[11] Reportedly locomotives were also ordered.[12]

3.2. The Contract

In addition to providing rolling stock (see below p.314), the Belgian firm was to regrade the main line of the state railways (350 klms) from Pireaus through Salonika up to the Northern frontiers of Greece and substantially extend the system.[13] Although the routes were not designated, the S.C.B. was commissioned to build extensions totaling 345 klms by 1930.[14] The renewal and reinforcement of the Piraeus -Salonika- frontier line and the construction of the new lines were to be undertaken within the framework of an agency contract, on a cost plus basis. The general expenses were fixed at 17% and the fee at 12% of the cost of the works. At 29% of the cost of the works, the total remuneration to be awarded to the contractor was low compared to the Athens water scheme and the reclamation of the Vardar valley. However, exceptionally the contractor was granted the exclusive right to supply virtually all materials at its own prices. (Indeed, the prices demanded by the Belgians were 80% above the world market prices).[15] Regarding the provision of rolling stock, 1400 freight wagons would be supplied. This figure was considered at the time exorbitant for the reason that the state railway already had more freight wagons than it needed whereas it had a dearth of carriages.[16] No passenger wagons were ordered because Pangalos was exclusively interested in equipping the railways with the necessary means for a pending mobilization of the army.

Regarding the financing of this project, the government resorted to the practice that had been employed in the case of the Athens water scheme. Namely, the contractor undertook to accept payment in the form of Greek government bonds. There were to be two separate issues of 8% short-term paper amounting to $10,500,000 each. One part (Schedule A) was issued at 90 and was devoted to repairing the old line and the construction of extensions. The redemption period was fixed at only 10 years. Notably, this was the shortest time span to be granted for an infrastructure loan during our period of study. The other part (Schedule B) was essentially a short term commercial credit, to be issued in series as and when the rolling stock material would be supplied. The issue price was 94 and the redemption period was 6 years from the receipt of the goods. (See below Table 1). No government revenues were pledged as security. Instead, the loan was secured against a first mortgage on the new line(s) and equipment and a first charge on the gross receipts of the state railways. However, as the state railways operated at a deficit, it was assumed that funds would have to be provided from other sources.[17]

Table 1

Schedule A	
Amount to be issued $10,500,000	Amount actually issued $10,500,000
Original real interest rate 8.9%	Rescheduled real interest rate 6.6%
Original redemption period 10 years	Rescheduled redemption period 30 years
Original goal i. The repair of the main state artery.	The actual record goal(i) accomplished
ii. The building of a new line (350 kms)	goal(ii)not accomplished
Schedule B	
Amount to be issued $10,500,000	Amount actually issued 5,597,000
Original real interest rate 8.5%	Rescheduled real interest rate 6.4%
Original redemption period 6 years	Rescheduled redemption period 20 years
Original goal The provision of rolling stock.	The actual record Rolling stock and fixed material were provided.

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933),p.515. Also, see the ratified contract.

Credit was not immediately available. It took the Societe Commerciale de Belgique more than 10 months to find the necessary funds to finance the scheme.[18] To our knowledge, before 1932 the contractor tried unsuccessfully on at least one occasion to dispose of a large part of the government bonds accepted as payment. Specifically, between 1929 and 1931 it tried to place about $5,250,000 worth of the bonds through Hambros Bank. But the bank showed no interest in placing them privately or in offering them to the public as it did not want Greece to be 'overexposed' in the City.[19]

3.3. The Realization of the Project

The only aspect of the scheme to be fully realized was the refurbishment of the main line. Greek experts were content with how this was carried out. Running speeds between Piraeus and Salonika was increased from 14 to about 9 hours.[20] But a League of Nations report maintained that a certain element of waste had been involved and the material used could have been less sturdy given the low density of the traffic.[21] As for the second part of the project, extensions were carried out in a haphazard manner. A fundamental problem was that the state had no clear idea of what it wanted. As already indicated, at first, under Michalakopoulos there had been talk of making at various points small extensions to the existing net work. However, when the contract was signed the dictator instructed the contractor to connect Salonika with Angista (135 klms), and Larissa with Verroia (210 klms). But, in March 1927, at the moment that the Societe Commerciale de Belgique was ready to begin building the extension to Angista, the coalition cancelled the project. The company was instructed to instead start at once a 180 klms line which would connect Kalambaka -Kozani- Verroia.[22] Notably, neither of these three 'cities' was on the existing rail network. Construction began in 1928 but it never got beyond the stage of preliminary earthworks. It was interrupted in mid 1932 because of the lack of funds.[23] The ministry of communications had originally estimated that this segment of the project would cost roughly \$7,000,000. But by early 1929, it became obvious that at least \$20,000,000 would be required and this could hardly be justified on commercial grounds.[24]

In total about \$5-6,000,000 was wasted on the construction of this 'phantom' line. This was equivalent to 6% of the amount borrowed for public works during our period of study.[25] It was observed that from a commercial viewpoint the government would have done better to connect the Greek state railway system with the Bulgarian rail network. This would have involved the construction of only 20 klms of line (from Sidirokastro to Petritsi) and would have had a high commercial return. But, strategic reasons did not make the construction of such a line feasible.[26]

The provision of rolling stock was not fully carried out either. Again the coalition government cancelled a large part of the order placed by Pangalos. The order for locomotives was reduced from 65 to 20 and only 375 instead of 1400 wagons were bought. A new agreement concerning the provision of the rolling stock was signed on April 9 1928,[27] whereby the total credits granted by the Belgians to the government amounted to $16,097,600, not $21,000,000 as initially agreed.[28] In addition, the loan was rescheduled in 1929. Indeed, this was the only loan of the twenties to be actually rescheduled during the decade. The nominal interest was lowered from 8% to 6%. The redemption period of the bonds of the first schedule was extended from 10 to 30 years, and those of the second from 6 to 20 years. Furthermore, a seven year grace period was granted, and the government was given the right of full redemption a year after the amortization of the loan would begin. In return the government agreed to grant as security surplus revenues accruing to the I.F.C.[29]

Pointedly, after the restoration of parliamentary rule in December 1926, voices of protest were heard from the League of Nations urging the government to modify the contract- i.e improve the loan terms and cancel the order for the 'unnecessary', 'military' rolling stock. It can be assumed that had these orders not been of a military nature and had they not concerned Belgium but Britain, the League would have been less inclined to offer this 'radical' advise- the presumption being that as an international supervisor it had as its principle that 'international' agreements were to be kept and not broken or modified.[30] It must be added that the Belgian Ministry of Foreign Affairs was not happy with this outcome and as a result put pressure on Greece not to change the terms.[31]

3.4. Pangalos' Concession Giving

It is notable that Pangalos was the only interwar Premier to sign contracts for schemes to be undertaken within the framework of foreign direct investments, granting monopolies to foreign interests in return for the securing of loan capital. (For monopolies also see Book I, Section II, 1.3, for F.D.I. see Book II, introduction). The first scheme was the concession for the electrification of the Athens area granted in late October 1925 to the consortium set up by the British firm Power and Traction.[32] The second scheme was granted in May 1926 to the Belgian firm New Antwerp Electrical for the country's telephone network. Up to this point telephone communications had been a state monopoly. This franchise remained dormant for a number of years and was eventually cancelled. In 1930 a 38 year modified version of this concession was granted to the German firm "Siemens and Halkse". Inspite of its significance there is practically no information available on this direct investment.[33] Third, the British firm Eastern Telegraph Co. had its concession for the country's cable telegraph communication renewed for 50 years. In addition, it was granted a concession for wireless telegraph.[34]

In sum: under Pangalos an incongruous situation developed whereby the government took an ultra hard stance on the issue of the war debt while at the same time it was provocatively 'soft' towards foreign business interests.[35] Pangalos in his naivete failed to appreciate the simple fact that had he been more accommodating on the issue of the war debt foreign finance might have been more forthcoming.

References

1. For criticism of the Belgian railway scheme after the downfall of Pangalos, see: *Ελεύθερον Βήμα*, February 2,8, 1927; March 17, 1927.

2. The six local connections to be made were between: Drama and Kavala; Salonika and Angista; Kozani and Veroia; Sorovitz and Kastoria; Agrinion and Arta; Ioannina and the Thessaly network. *Ελεύθερον Βήμα*, April 7,15, 1925.

3. The street car company that had been part of the old electricity concession had belonged to this Belgian firm.

4. *Ελεύθερον Βήμα*, August 10 1926. Also for the fact that Michalakopoulos was discussing with Belgians, see: *Ελεύθερον Βήμα*, 7,15 April 1925. Also, Gatopoulos, *op.cit.*, p.869.

5. The contract was signed on August 27 1925, and was ratified on October 8 1925. Source:*G.G.*, First issue, Folio 294, October 8 1925.

6. *Καθημερινή*, September 20 1925. The committee Pangalos set up reportedly managed to improve certain financial terms of the contract and shorten the length for the building of the works from seven to four years.

7. *Καθημερινή*, September 23 1925. Also, for interest of this firm. This firm had declared an interest in undertaking the project while Michalakopoulos was still in office, see: *Καθημερινή* 23,25, September 1925. For the fact that the terms offered by Armstrong were better, see: *Ελεύθερον Βήμα*, September 23 1925.

8. "As soon as conditions permit opportunities are sure to occur for the participation of British firms in important railway contracts. It will however, be necessary to reduce prices considerably, such contracts as have been made during the year have shown that as a general rule British prices are two or three times as high as those of their Central European competitors, who moreover, have the advantage of rail transport direct to the Greek delivery centre. Source:" FO371/10771/C2560, Annual Report (economic) of 1924.

9. For the Thessaloniki Monastir line agreement (October 17 1925), see: Stephanides, *op.cit.*, pp.246-247.

10. These agreements fell through because neither of the two companies was able to raise the required loan capital. Source: Stephanides, *op.cit.*, pp.240-241.

11. The average price of these wagons was $1,500. See: *Ελεύθερον Βήμα*, March 17 1927. The names of the Czechoslovak and Austrian firms are provided in: B.M./V.A., File 190, document titled: 'Note de la Societe Commerciale de Belgique, December 31 1928. Also in this document it is noted that Skoda provided its wagons with a 75% credit which was for 40 months and had a nominal interest rate of 9%; whereas Ringhoffer for half the value of the goods granted a 30 month credit again for 9%. However we do not know the price of issue of these credits and thus we cannot compare these credits with the one provided by the Belgians.

12. According to the Bank of England Archives the wagons and locomotives ordered in Czechoslovakia and Austria amounting to £700,000 were provided on short term credit (with maturity from 3 months to 3 1/3 years). Source: B.E./C.B.P., 326, Vol.4, document titled: 'Pangalos Commitments'.

13. The total state rail lines amounted to 1,317 klms, and the total network of the country (state and private lines was 2,632 klms). Economic Yearbook of Greece for 1932, the Regnoul report, pp.273-4.

14. For the fact that the main object of this project as stated in the contract was the extension of the railway network, see: article 1 of the contract.

15. U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: U.S.A. Legation to Department of State, January 26 1927. Also articles 1 and 2 of the annex of contract.

16. In 1932 the total number of steamengines was 200, but only 110 were actually in active service. Also from a total of 4,000 commercial wagons only 2,500 were used. For this information and the dearth of passenger wagons, see: Economic Yearbook of Greece for 1932, p.277.

17. Also, it was specified in the Contract, that the bonds of this loan would constitute a direct debt of the Greek state. Article 16 of the contract.

18. In July 1926 the following report was made: "The [Greek] government is at present advancing $80,000 per month to the contractors to enable them to carry out the preliminary work in Progress... It is thought in railway and business circles that the contractors are encountering considerable difficulty in finding money abroad and it is doubtful whether the Belgian group will be able to carry out the terms of the agreement". Source: U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: Goold to Secretary of State, July 13 1926.

19. N.B.G./H.A., X Banks, Foreign Banks, File 68, N.B.G. correspondence with Hambros: Diomedes to Hambros, February 6, 1929; C.Hambro to Diomedes, June 17 1931.

20. B.M./V.A., File 190: "Note de la Societe Commerciale de Belgique", December 31 1928, December 31 1928.

21. See: Regnoul report in Economic Yearbook of Greece for 1932, p.276.

22. The study for the construction of the Salonika Angista line had cost approximately $200,000. Source: A.Matsas "Το Πρόβλημα της Συνδέσεως της Σιδηροδρομικής Γραμμής Καλαμπάκας-Κοζάνης", (The Problem of the Connection of the Kalambaka-Kozani Railway Line), in Greek Chamber of Engineering, *op.cit.*, pp.194-195.

23. Markezinis, *op.cit.*, p.195.

24. In 1927 the ministry of communications had estimated the cost at $7,000,000. In the end of 1928 the firm had estimated $14-15,000,000 and in September 1929 after the results of two subcontracting auctions held by the ministry it became apparent that the final cost would surpass $20,000,000, Matsas, *ibid.*

25. This figure of $5-6,000,000 does not take into account the full burden imposed on the government, considering that it does not include the interest charged on this capital sum.

26. See: The Regnoul Report in the Economic Yearbook of Greece for 1932, Athens 1933, pp.273-289.

27. N.B.G./H.A., X Banks, Foreign Banks, File 68, N.B.G., correspondence with Hambros: Governor of the N.B.G. to Hambros, February 6 1929, Memorandum B. In early 1927 Diomedes thought that it would be possible to arrange for the cancellation of perhaps as much as 50% of the orders for the rolling stock. C.B.P.327, Vol.1, document titled: 'Confidential-Note of a Conversation with M.Al. Diomedes Governor of the National Bank of Greece', February 14 1927.

28. This was so because only $5,597,600 was provided within the framework of schedule B. Moreover, it must be noted that part of the funds granted under schedule B covered not the supply of rolling stock as initially planned, but instead fixed material. See: Economic Yearbook of Greece for 1932, p.515.

29. These were those revenues that remained after provision was made for the service of all of the loans that already had a claim on these revenues including the unissued portion of the £22,000,000 loan for public works. The modified contract was ratified by the National Assembly on August 13 1929. See: Law 4387 in: *G.G.*, First issue, Folio 297 of August 20 1929.

30. The League of Nations claimed that it feared that the Greek budget would not be able to meet the financial obligations it had undertaken. See: B.E./C.B.P., 327 Vol.1, Jackobson to Sir Arthur (Salter?), February 8 1927.

31. N.B.G./H.A., X Banks, Foreign Banks, File 68, N.B.G. correspondence with Hambros: Diomedes to Hambros Bank, February 6 1929.

32. This important investment has been covered extensively in: Pandelakis, (1991), *op.cit.*, pp.175-366. Also see: I. Minoglou, "Τραπεζίτες και οικονομική ανάπτυξη: οι δραστηριότητες των αγγλοελληνικών τραπεζικών ομίλων στο μεσοπόλεμο" (Bankers and Economic Development: Anglo-Hellenic joint ventures during the interwar period), 94th meeting of the researchers of the Historical Archive of the National Bank of Greece, January 19 1989, (mimeographed).

33. *G.G.*, First issue, Folio 134, Law 4547 of April 15 1930. For information on this concession also see Stephanides, *op.cit.*, pp.287-291.

34. For details see: *Ελεύθερον Βήμα*, July 14 1926; For the effort of the firm Marconi to be assigned this concession, see: *Καθημερινή*, July 20 1925.

35. For details on Pangalos inconsistency - free hand with concessions and hard on the war debt issue, see: I.Minoglou, Εξωτερικός δανεισμός του Ελληνικού δημοσίου και παροχή αποκλειστικών προνομίων σε ξένες εταιρείες: 1925-1926" ("Foreign Borrowing of the Greek public sector and the granting of concessions to foreign firms:1925-1926"), 66th meeting of the researchers of the Historical Archive of the National Bank of Greece, June 5 1986, (mimeographed).

SECTION II

PUBLIC WORKS AND THE QUEST FOR STABILIZATION (mid 1926-mid 1928)

Introduction

i. The State of Research

The extent to which infrastructure development and the concomitant inflow of foreign capital was influenced from mid 1926 to mid 1928 by 'exogenous' economic variables (e.g. the quest for stabilization and the war debt embargo) and political phenomena (e.g. the coalition government) has not been explored in the historiography of interwar Greece. It is also the case that the growing interest on the part of American financiers in Greek public works following the downfall of Pangalos has not been recorded either.[1] This section aims at redressing these omissions.

ii. General Comments on Infrastructure Development After the Downfall of Pangalos

The momentum in public work projects which began in December 1924 came to an abrupt halt about one year later. During the pre-stabilization phase which began with the caretaker government of George Kondylis and lasted throughout the larger part of the coalition, no new investment was undertaken in infrastructure. This was not due to any lack of interest in Greece on the part of foreign business. Infact, the opposite was the case. Immediately after the restoration of democracy, there was a 'surge' in the number of foreign firms that proposed to construct and finance large public work projects. The coalition of five political parties (December 1926- July 1928) showed an interest in these offers but was inhibited from continuing the infrastructure 'boom' that preceded its installation as a result of: i) the war debt embargo imposed by Britain and the U.S.A. on loans to the Greek government, and ii) the stabilization programme and the associated constraint on foreign borrowing imposed by the League.

Regarding the embargo, it must be reminded that a debt funding agreement was signed with Britain in April 1927 and with the U.S.A. in December 1927. Thus, from January 1928 onwards the government theoretically had access to the two most important capital markets. Yet despite entering into negotiations for various schemes, the coalition deliberately refrained from concluding any final agreements before May 1928. The Financial Committee of the League had dictated that no government loan was to be floated on the international market before Greece stabilized and joined the gold exchange standard. By definition foreign borrowing would have been part and parcel of any new infrastructure scheme as the coalition government was against foreign direct investments as a matter of principle.[2] This was unfortunate considering that large scale F.D.I. would (at least in the short-term) have helped stabilize the drachma while maintaining the momentum in infrastructure development.

The coalition worked towards stabilization in the hope that Greece would gain the trust of the international community and thereby enjoy the substantial capital inflow that was required for the building of public work projects. Thus, politicoeconomic stabilization was seen as a sine qua non for the creation of a modern physical infrastructure.[3] Stabilization was completed on May 14, 1928; in an ironic way on July 4, 1928 (i.e. less than two months later, the coalition broke down). Under the circumstances this government did not have the opportunity to embark on a massive public works programme. Finally, in order to set the infrastructure 'policy' of the coalition into perspective it should be noted that it was eager to maintain a balance and not take sides in the Anglo-American rivalry for construction in Greece. (See below Book II, Section II, Chapter 1 for details on how it handled the road project and the land reclamation on programme). Notably, the coalition government also handled with great care the issue of the re-ratification of the public work contracts that had been signed under the Pangalos regime and which had provoked anti-foreign feeling. The National Assembly had not ratified any of these three contracts. (i.e. the contracts signed with the British Power and Traction for the electrification of the Athens area, the Belgian Societe Commerciale de Belgique for railway construction and the American firm The Foundation

Co. for the reclamation of the Vardar valley).[4] The coalition did not approve of Pangalos actions. But, as can be seen from the long parliamentary debates held during the spring and summer of 1927, it indirectly helped the American and British contractors to win over the National Assembly.[5] The coalition did not want to create points of friction with Britain and the U.S.A., that might endanger the success of the stabilization programme. The task of winning over the National Assembly proved arduous, especially in the case of the Athens electrification scheme for the extensive criticism directed against it rested on sound argumentation.[6]

Chapter 1

The Record

Chronological Summary

1924-1925:	P.J. Makris submits offer to the Greek government for the construction of a national road network.
March 31, 1927:	The minister of communications of the coalition presents to the National Assembly a draft law for the holding of a tender for a national road network to be constructed and maintained by a Greek firm, and financed by foreign capital.
August 27 1927:	The Law is approved by the National Assembly (Law 3404).
October 29, 1927:	The tender is held. Four firms make bids. Three are backed by American banks and the one by a British.
November 25, 1927:	The coalition cabinet decides to consider only two of the offers: one is an American banker the other British.
February 7, 1928:	The radical Republican union withdraws from the coalition because it does not agree with the minister of communications that the British backed firm of P.G. Makris should be awarded the project.
February 11, 1928:	A tender is announced for the drainage of the Struma-Thessaly valleys. Four days later the tender is extended to include irrigation works in the above two valleys. Three firms make offers: Two Americans one British.
March 27, 1928:	Hambros makes a firm offer for the provision of a one year overdraft for the road scheme in the event that the project is awarded to P.G. Makris.
April 20, 1928:	The coalition cabinet decides to assign the road project to P.G.Makris.
May 12, 1928:	The coalition cabinet 'decides' to allocate the reclamation of the Struma valley to Monk-Ulen (an American consortium) and the reclamation of the Thessaly valley to the Foundation Co.
June 1928:	The coalition cabinet 'decides' to allocate the reclamation of the Epirus valley to a British firm, Henry Boot & Sons.

The coalition's record regarding public works was as follows: In May 1928, it signed a contract for the construction of a national network of roads and it announced -without however signing any contract and thereby committing itself- future plans regarding land reclamation.

1.1. The National Road Scheme

1.1.1. Basic features and significance

The road scheme was unique in that it was assigned to a Greek contractor - albeit one who had close links with foreign business interests. Moreover, it was of a 'national', not a local scale. In addition, it was the only large social overhead capital scheme of the interwar period to be undertaken on a fixed price, not a cost plus basis. Nevertheless, the contract was long remembered as an example to be avoided because it was poorly designed and executed. Although half of the estimated expenditure was spent, the net addition to the road mileage was less than 3% and not over 25% as had been planned. The project demonstrated that the state and domestic entrepreneurship were neither mature enough to free themselves from dependence on foreign know-how cum management nor able to carry out an infrastructure scheme of national dimensions. In common, with the other large public utilities schemes already examined, the government turned to the world capital market for funds. Moreover, as with the reclamation of the Vardar valley, a concession for the maintenance of the works was granted but never actually applied.

The events surrounding this scheme attest to the growing interest of American capital in Greece and its effort to make inroads into what was considered a British preserve. Second, the project signals the insecurity of the Greek state and its desire not to provoke the wrath of either Britain or the U.S.A. Third, the road issue confirms the development of an intricate web of interrelations. Two different but interconnected struggles emerged: one was the antagonism between opposing economico-political groups within Greece; the other involved the conflict between Greek and foreign interests. Matters became especially complicated as external elements permeated the first battle and internal factors influenced the second.

1.1.2 The problem posed

According to contemporary reports, Greece at the opening of the interwar period had the worst roads in Europe and the lowest concentration both on a percapita and per square kilometre basis. As one source put it, "The roads of Greece reflect the poverty of the country in both their number and quality".[1] The scarcity of roads was particularly apparent in the so called new provinces.[2] The backward state of her road system was a serious drawback, obstructing the creation of a unified national market. In addition, it served to perpetuate the phenomenon whereby large segments of the peasantry, were confined to the subsistence sector. With the arrival of the refugees, the need for a national road network became more pressing. A large number of the refugees were settled in remote areas. In addition, in order to become effective from an economic point of view, the land reform and reclamation schemes required that the road network be improved and extended. Indeed, for the elimination of the trade gap it was necessary to increase agricultural production and to ensure that this larger production would reach the market. Due to the mountainous nature of the country, the building of roads was not easy. However, it posed fewer technical problems than railway construction. Hence, the decision to construct a national road network was intrinsically sound. However, as was the case with the other infrastructure schemes, the terms under which the project materialized were far from 'sound'.

1.1.3. The preliminaries to the decision to hold a national tender

The road scheme commenced under the instigation of an obstinate minister of communications, Ioannis Metaxas, who incidentally was the first to apply "development planning" in Greece during his rule as dictator from 1936 to 1940.[3] Events leading to the realization of the project date back to 1924, when P.G. Makris, a paper manufacturer and the representative of Shell in Greece, discussed with Prime Minister Michalakopoulos the possibility of the construction of a national network of roads. Makris had no direct experience in construction but was associated with nine prestigious Greek engineering firms.[4] The firm conceived the idea of the road work project basically as a means for increasing its sales of Shell products (such as asphalt and petrol) "... thus aiming at the indirect profits that would accrue, ultimately, from the establishment of road communications and not the direct benefits that would accrue in its capacity of concessionaire from the construction part of the work". For example, Makris was also interested in organizing a motor car and lorry business in Greece through which it would promote British vehicles.[5]

Makris was backed both by Shell and Hambros.[6] The latter was indeed eager to provide the £6,000,000 estimated as required in order to cover the cost of road construction.[7] The National Bank also supported Makris tacitly because it was generally interested in developing Greece's communications network and for the particular reason that it had extensive interests in the firm. Notably, one of its top officials (Koryzis) sat on the board of directors and another (Drossopoulos) was made chairman of the Makris company. These facts attest to the tight links which the country's top banking institution enjoyed with leading Greek entrepreneurs. (See: Book I, Section III, Phase Three).

No agreement was concluded under Michalkopoulos who opposed the participation of Hambros.[8] Throughout the Pangalos regime, Makris continued without success to press for the road project.[9] It was only during the final days of the coalition, that it succeeded in signing an agreement with the government. However, 'victory' did not come easily. Metaxas reopened the Makris files within weeks of becoming minister.[10] He wanted to sign a contract at once-presumably because it was the most serious firm. The cabinet not agreeing with such a procedure decided to hold a strictly national tender. Never before had international firms been precluded from participating in a competition for a large infrastructure project. This 'radical' move was based on several assumptions. First, although the scheme was more extensive in scale and cost than the other ones being undertaken or discussed at the time, it was thought to be within the technical competence of Greek engineers. Second, the construction of a national road system could provide a good starting point for the development of Greek know how and management. Third, it was stated that a local firm would have more incentive to do a good job, the total cost of the works would be lower and the amount of foreign exchange to be spent on the scheme would be less.[11] Perhaps this was little more than wishful thinking. More significant, a national tender concealed an additional motivation not mentioned openly. This was that the state desired for nationalistic and military reasons that domestic contractors build and maintain this key means of transportation.

1.1.4. The national tender

The tender for the road scheme was held on October 27, 1927.[12] The primary concern of the state -as was the case with the previous schemes undertaken- was to find a contractor capable of securing the necessary funds to cover the construction expenses. In this instance, the bidders were required to arrange the flotation of a £6,000,000 loan to be raised 18 months after the conclusion of the contract (so as to allow time for the stabilization plan to be put on a firm basis) and provide an advance of a £400,000 to enable the works to start at once. The use of this mode of financing, whereby the contractor was forced to arrange financial backing, indicates the extent of insecurity felt by the coalition regarding Greece's future borrowing prospects. Obviously, it was not yet fully convinced that there would be an easy flow of capital into Greece after stabilization.

Contemporary critics maintained that the tender had been preordained in favour of Makris. However, the material at hand shows that Metaxas had to mount a fierce battle in order to convince the cabinet to assign the project to Makris.[13] Apart from P.G. Makris, three other Greek firms submitted bids: The Rallides Bros.; The Cooperative Society of Northern Greece; and Prezanis - Kapsambelis & Co. All of these contractors promised to secure the required funds from American bankers. Rallides Bros. were backed by Fox Brothers International Corporation. The Cooperative Society of Northern Greece presented Taylor & Bros. as their financial backer. Prezanis - Kapsambelis declared that Blair & Co. and Chase Securities Co. had promised to make a definitive commitment, after the U.S.A. government lifted its war debt embargo on loans to the Greek government.[14] Incidentally, the British engineering company Henry Boot & Sons also made a bid, and reportedly asked for more or less the same remuneration as Makris but the cabinet refused to enter negotiations because the firm was not Greek.[15] The three Greek bidders offered better terms than Makris regarding the cost of construction. Their unit price cost analysis and level of remuneration demanded, were closer to the guide figures presented by the department of public works than the Makris bid. (Unfortunately the exact figures are not available). It was not difficult for Metaxas to put the Cooperative Society of Northern Greece out of the picture. It was a small concern with insufficient experience and its banker could not prove that it had adequate capital to cover the scheme.[16] However, Metaxas found strong resistance in his effort to eliminate the other competitors. Both were able to secure the support of more radical members of the cabinet who opposed Metaxas on various political issues.[17]

The battle for the contract unfolded in the following manner. The head of the radical union party and minister of agriculture, Alexandros Papanastassiou, on February 7 1928 resigned and withdrew his support for the coalition because the cabinet refused to accept his proposal that the project should go to Rallides. This firm was involved in a scandal in the ordering of new railway wagons during the Pangalos regime and its financial backer, Fox Brothers International Corporation, had left incomplete the financing of a public works project in the Soviet Union.[18] With Papanastassiou's resignation, the Rallides offer became a dead letter. Metaxas' major task was now to fight off the Prezanis-Kapsambelis bid. Shortly before the holding of the tender Prezanis had filed for default. It also had a reputation for being a slow and poor contractor.[19] However, it was associated with the American road works construction firm Trinidad, and enjoyed the active support of the department of public works and the liberal George Papandreou who was still a cabinet member.[20] More importantly, events seemed to favour Prezanis-Kampsambelis when in early February 1928, its financial backer, Blair, came forward with a definitive offer to provide the £6,000,000 loan at 2% points above the issue price of the Stabilization Loan.[21] This was an attractive proposition considering that Hambros had only offered a £6,000,000 loan at an issue price equal to that of the Stabilization Loan in support of Makris.[22]

Unwilling to accept defeat,[23] Metaxas convinced Makris to undertake the project at a lower level of remuneration and adjust its offer to the guide prices put forward by the department of public works of the ministry of communications.[24] Furthermore, he gained the support of the Venizelist faction -which was the mainstay of the coalition- by exchanging favours. On the one hand, Metaxas hurriedly announced on February 11 a competition for land reclamation in the Struma and Thessaly valleys. It was a well known fact that the Venizelists were particularly keen to see these projects implemented as they complemented the radical land reform already initiated.[25] On the other hand, Metaxas openly supported the stabilization law which was presented to the National Assembly for approval by Kafandaris, the Venizelist faction strongman. In addition, Metaxas was also able to divert attention away from Blair as during March Hambros came forward with a proposal to offer a £1,000,000 one year overdraft to the government for the road works on the condition that the project would be awarded to Makris. This undoubtedly gave the Makris offer a competitive edge considering that the government had asked the bidders to supply only a £400,000 advance.[26]

Thus, on April 6, 1928, Kafandaris, as head of the coalition, decided that the project should be awarded to Makris. However, he was reluctant either to make a formal announcement or to sign a contract with this firm before ascertaining that the American Congress would not retaliate by further withholding ratification of the refugee credits. (See: Book I, Section III, Phase Two). No time was lost. On April 11 1928 the Greek ambassador in Washington visited the deputy secretary of the Treasury. This visit had two purposes. One was to declare that the government intended to award the Struma project to one of the American bidders (i.e. either to The Foundation Co. or Monks-Ulen & Co). The other purpose was to enquire whether the American government would continue to support granting the refugee credits if the road contract went to Makris.[27] The meeting held no unpleasant surprises. The ambassador was assured that the U.S.A. government had no intention to connect the issue of the refugee credits with the road contract. It was pointed out to the Greek minister that the delay in the ratification of the refugee loan by Congress was due solely to the desire of the opposition party to attack the government in view of the coming elections. However, it was admitted that the awarding of another project(such as a land reclamation scheme) to American business would have a favourable impression on American public opinion.[28] To put it bluntly: the Greeks were told that Makris could have the roads if U.S. interests were to be preferred with regard to land improvement. Hambros had "strongly" advised Athens against approaching Washington formally on the subject of the road contract. It maintained that this was unnecessary because half of the loan capital for the road project would be provided by its American associates (i.e. Speyer's and The National City Bank) and the Senate Committee's approval of the refugee loan was practicably "as good as ratification". Moreover, it warned the government that: "Once you approach Washington in this manner [i.e. formally] your freedom of action is entirely lost" What an ironic statement this was considering Hambro's persistent 'supervision' over the Greek government![29]

On April 20 1928, i.e. nine days after the Greek ambassador visited the U.S. deputy secretary of the Treasury, the government decided to assign the road project to P.G. Makris. It must be underlined that the words of the U.S.A. Treasury official, were carefully heeded to. Thus, one week before signing the contract with Makris, the cabinet announced that the Struma project would be assigned to Monks-Ulen.[30] Moreover, another 'precautionary' measure was taken. The question of who would undertake the long-run financing of the road scheme was left open. The coalition apparently feared that if it made a definitive commitment towards Hambros Bank at this stage in addition to jeopardizing the approval of the Congress for the refugee credits, it would be castigated by the opposition at home 'as selling out to Hambros'. Thus, the contract signed on May 18 arranged only for the provision of a temporary advance by Hambros.[31]

The Greek government was unnecessarily concerned about provoking the wrath of the Congress and the U.S.A. government. Though the American ambassador in Greece had informed the government of his 'interest' in Blair (the financial backer of Prezanis Kapsambelis), Department of State material at hand shows no evidence that the Greek government was pressurized to favour either of the American backed contenders for the road project as a precondition for the provision of the refugee credits. However, the British minister in Athens thought otherwise. He actually maintained that Greece left unsettled the question of who would provide the long term bond loan for the roads as a 'sop' to American interests, as by this time it was being forcibly represented to the government by the United States Legation and the American Banks that Congress might refuse to ratify "2,5 million credits promised for refugee work unless preference were given in Greece to American business".[32] The claim of the British has been taken at face value and in the historiography it has been maintained that the Department of State ruthlessly pressured the Greek government.

The following incident described by Metaxas in his Diaries may be illustrative. On December 29, 1927, a Mr. Grossbard vice president of Fox Brothers, (i.e. the bank that had originally backed Rallides) visited Metaxas and informed him that his firm was in a position to secure the loan, and that the American ambassador in Athens, Skinner, was considering the possibility of making a protest. There is no evidence that such a presentation was ever actually made. This episode seems to indicate not so much the attitude of the American government, but the wishful thinking of an American entrepreneur and the prejudice of the British Ambassador. This entry in the Metaxas diary has been misread. On the basis of this incidence, Karamanlis in his book on Venizelos wrongly construed that the Department of State put intense pressure on the Greek government to grant the road project to an American firm![33] To sum up: The handling of the road project by the coalition portrays that two types of parameters played an important role in determining the policy adopted by the government: these were the overriding desire to keep both the U.S.A. and Britain content, and the internal political conflicts which plagued the coalition since its inception. The analysis has concentrated on revealing the political games which permeated the handling of this project because the relevant economic data are lacking. It is almost impossible to make a definitive statement as to whether Makris was the best choice. There is no way to check whether the other competitors were indeed as "unreliable" as Metaxas claimed. The 'fierce' competition over the project did political damage in that it increased the internal tensions of the coalition and narrowed its political base with the resignation of Papanastassiou. Clearly, had it not been for the tender and the fact that the radical elements of the cabinet firmly opposed Makris, it is unlikely that the latter would have agreed to the cost per unit price analysis specified by the department of public works. Nor would it have agreed to decrease its gross remuneration from 31% to 25%. This 'reduced' figure was 'high' in comparison to the 21% awarded to the firm Monks-Ulen Co. in December 1928 for the drainage of the Struma valley.[34] But it was low considering that at the time in the Athens area other road works were being carried out at a remuneration of 32.60%.[35]

In concluding, the scheme suffered from a basic disadvantage. Unlike other projects undertaken by foreign firms, the contract upon being signed by the government and the builder became automatically effective. Law 3034 pertaining to the road tender had **specified that ratification by the National Assembly would not be necessary** - just as during the Pangalos dictatorship! It is probable that the law maker was lenient because the builder would be a Greek firm. Regardless, however, of the motives for this exemption, it is clear that had the road contract been subjected to parliamentary scrutiny this scheme may have had better results. As was exemplified in the case of the new Athens water system, the process of ratification by the National Assembly had positive ramifications as it gave the state a direct opportunity to improve the terms of the contract.

1.1.5. The implementation of the scheme

Makris lacked the sufficient experience of carrying out a project of this dimension, and that the government handled this project in a highly ad hoc fashion. Improvisation was excessive. Part of the problem lay in that no detailed specifications had been drawn up in advance regarding the length of the roads and the exact location of the main trunk routes and branches. Indeed, confusion existed as to how many kilometres of road were to be constructed. The figures mentioned were between 2,500 and 4,000 klms, thereby representing a 25-40% net addition to the existing network.[36] The contract was specific only insofar as it stated that the work would have to be completed in six years and that the first 1,760 klms must be ready in three years.

The actual record was abominable. Although Makris duly started constructing 1,560 klms after four years (i.e. by the end of 1932 it had completed only 300 klms). A notable waste of funds occurred although the contract was of a unit price type. It was the case -as in fact it is today- that the ministry of communications agreed periodically to make adjustments to higher prices.[37] Apparently, the remaining 1,260 klms on which the builder had started work were never actually finished. Not only was the net addition to the road system of marginal significance, it also consisted of unconnected stretches of roads scattered all over the country. Political considerations predominated. It was by no coincidence that 135 out of the 300 klms actually completed were on Crete which happened to be the birthplace of Venizelos.[38] It is apparent that the criteria for the allocation of government funds remained only in part technical and economic. The political ethos of the past was still alive. For in the 19th century those areas that got roads were the ones that had the more famous politicians in Greece.[39] More emphasis should have been laid on completing the Macedonian section of the road network because in this part of Greece a large number of new villages were being set up in order to settle the refugees. In addition, the reclamation of the Vardar and Struma valleys required that the new production areas be linked with the urban centers in order to contribute to the economic development of Greece. By 1931, the government was not pleased with the performance of the contractor. Thus, on July

8, 1931, the remuneration of the contractor (i.e. fee and the general expenses) was lowered from 25% to 21% of the cost of the works. Nineteen months later, in February 1933 the state annulled the contract altogether on the grounds that the builder: had failed to provide the necessary loan capital; was working at a slow pace; had poorly organized the project; and was wasting funds. P.G Makris refused to accept the annulment. Finally, in July 1934, a revised contract was signed. The remuneration was lowered to 16.5% of the cost of the works; the total length of roads to be completed was lowered from 4,000 to 1,760 klms; and the contractor resigned from the concession that had been granted to it in the original contract to maintain the roads for a period of 15-25 years.[40]

In short, as initially planned the project had a bigger estimated expenditure and a grander geographical scale than the other infrastructure schemes on which the government embarked during the interwar period. Moreover, the anticipated multiplier effect on the National Income was higher. The contractor being a Greek firm a higher percentage of the capital spent would stay in the country (i.e. there would be fewer leakages). By definition being a labour intensive scheme, it was expected to play a substantial role in reducing unemployment. The slow pace of the works is indicated by the fact that the annual employment of workers on the construction site did not surpass 15,000 men although it had been estimated before the works began that for the duration of the works, 40-50,000 labourers would be employed.[41] Infact, together with the railway project of General Pangalos it proved the most disappointing scheme of our period of study. Although 87% of the estimated expenditure was spent less than 10% of the planned kilometres were completed. (See Table 1).

Once again, the government was attacked by the opposition and the press for the manner in which a public work scheme was being carried out.[42] Greece's foreign observers were also highly critical. In particular, they had expressed disapproval that the planned roads would not link the rural (agricultural and mining) producer areas with urban centers of consumption and ports. Instead emphasis was laid on building a main trunk primarily geared towards the development of the tourist industry! According to the R.I.I.A. the Greek road project proved to be far more unsystematic than similar schemes being undertaken at the time by foreign capital in other Balkan countries.[43] We must add, however, that it was also far more unsystematic than the other infrastructure schemes undertaken in Greece during our period of study.

Table 1

I.	Length of roads to be constructed as stated in the contract:	4,000 klms?
II.	Length of roads actually completed by the end of 1932:	300 klms
III.	Length of roads being constructed but not completed by the end of 1932:	1,572 klms[1]
IV.	Estimated cost of the project:	5,000,000[2]
V.	Amount spent on the project up to the end of 1932:	£4,354,995
VI.	(V) as a % of (IV):	87%
VII.	Amount covered from the two productive works loans:	£1,308,000
VIII.	Amount covered from the Speyer's and N.B.G. advances:	£ 871,547
IX.	Amount covered from the state budget:	£2,175,448[3]
	(IX) as a % (V):	50%

[1]About 460 klms were semi dug out roads, 892 klms were dug out but had not been laid with gravel or tar, and 220 klms had been laid with gravel but had not been tarred. Indeed, as late as 1939, only 296 klms of roads in Greece were tar-macadam, bituminous concrete or asphalt-surfaced concrete roads. Source: Naval Intelligence Division, Geographical Handbook Series. Greece, (London, 1944), Vol. II, pp.314-315.
[2]The estimated cost is derived by the following reasoning: a) the contractor claimed that it needed a £6,000,000 loan; b) the contractor also claimed that this loan would have the same price of issue as the Stabilization Loan (i.e. 86%). That is the net produce of this loan for the government and the contractor would be approximately £5,000,000. Since this sum was to be spent exclusively on the scheme, we deduct that it was equivalent equal to the estimated cost.
[3]This amount was provided in drachmae and not foreign exchange.

Sources: Compiled from G.Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp.297-298. Also, G.L.H.A./D.A.: File 37 (28) "Capitaux disposes hors du budget-produit d'emprunt productif 6% 1931" and "Avance sur l'emprunt productif par la banque Speyer" and "Avance par la Banque Nationale de Grece sur l' emprunt productif".

Before closing, a few words should be added regarding the mode of financing. In the contract Makris signed with the government, on May 18, 1928, it was agreed that Hambros Bank would provide a temporary advance of £400,000 to make possible the immediate commencement of the works.[44] (Hambros conveniently forgot the offer it had made in March to offer a £1,000,000 overdraft). Moreover, it was specified that the contractor would in the near future, secure the flotation of £6,000,000 bonds on the international capital market under terms equal to those of the Stabilization Loan. The question of who would float the loan was not settled, although it was assumed that it would be Hambros.[45] The advance was granted in August 1928, but no special road loan followed. Instead, 30% of the expenditure was covered from the two general purpose public work loans raised abroad under the Venizelos government in 1928 and 1931. The other 70% was met by the state budget (see Table 1). Hence, once again the government had been over-optimistic about its ability to attract the foreign capital required for a public works scheme.

1.2. The Land Reclamation Programme

As mentioned above on February 11 1928, Metaxas announced an international tender for the drainage of the Struma and the Thessaly valleys. Four days later a clause was inserted in the tender for irrigation works as well. There were three contenders. One was the American 'syndicate' of Monks-Ulen which was financially backed by Seligman. (Let it be reminded that Ulen's collaborator - The Bank of Athens was the representative of Seligman in Greece). Ulen, by combining with Monks gave itself the guise of a 'new concern'. Thereby, it hoped to avoid appearing as trying to establish a monopolistic presence in Greece. The second contender was The Foundation Co.,[46] which presented Blair & Co. as its financial backer. In 1925, this contractor had agreed to exclusive cooperation with Hambros. (Book II, Section I, Chapter 2, 2.5.) Apparently however, Hambros had concluded a working arrangement with Blair & Co.-the terms of which are not known.[47] The Foundation Co. did not appear alone in this bid. It combined with the Greek engineering firm "Ergoliptiki Societe Generale d' Enterprises Technique M.A. Diamantopoulos & Cie." in the belief that if it cooperated with local capital, the government would be more favourably disposed to its offer. It intended to either obtain the contract in Ergoliptiki's own name "or thru a special company organized for this purpose" under its entire control.[48] The third contender was the British firm, Henry Boot & Sons which was backed by Helbert Wagg and Co. Unlike Monks-Ulen or The Foundation Co. this contractor had no previous experience in Greece. However, one of its directors, Sir George Armstrong, was familiar in Greece because he had shown an interest in lending funds to the government during the Asia Minor Campaign and undertaking the construction of the railway scheme in 1925.[49]

Table 2

The Terms Offered in the Tender for the Struma and Thessaly Valleys Versus the Contract for the Struma Valley

	(a) General Expenses	(b) Fee	(a)+(b)	Advance	Issue Price
Monks- Ulen	14.75 %	12%	28.52%	$1mill.	88%
The Foundation	12 %	14%	27.68%	$2mill.	86%
Boot	12 %	9%	21 %	$4mill.	unspecified
Contract	11.63 %	10%*	21.63%	—	—

Compiled from: B.M/V.A., File 66, document titled: 'The drainage works of Struma, Phillipi, Thessally, Epirus, etc.'.

The technical and a financial committees set up by the government to study the three proposals reported "unanimously in favour of Boots" and as a result Metaxas recommended to the cabinet that the schemes under consideration be awarded to this British firm. The strong points of the Boot offer compared to those made by the American contractors were twofold. General expenses cum fee charged were substantially lower and the advance it was willing to grant was higher. (See Table 2 above)

Nevertheless, in May the cabinet -presumably because it was insecure about the American refugee credits- decided to divide these two projects among the two American contestants.[50] What is peculiar is that the larger of the two schemes (i.e. the Struma valley) was allotted to Monks-Ulen although The Foundation Co. demanded a lower remuneration, and also proposed to undertake the project on a unit cost basis (regie cointeresse). The experience gained with the Vardar valley project gave it a competitive edge in the sense that it was the only contractor confident enough to depart from a cost-plus framework. It is plausible to make the assumption that the government thought, that if it granted either both schemes or the larger one to The Foundation Co., it would be accused at home as being a 'slave' to the interests of the N.B.G. and one specific multinational. (As mentioned above Ulen by combining with Monks took the appearance of a 'new' concern).

The coalition after having divided the two projects between the U.S. bidders made a manoeuvre in order not to totally alienate British interests. In early June, about one month before leaving office, the cabinet formally announced that Henry Boot & Sons would be assigned the reclamation of the Epirus valley. Notably reclamation work in this small valley had not been included in the February tender.[51] In the last analysis, the decision of the cabinet to allocate the Thessaly valley to The Foundation Co. and the Epirus valley to Boot is of academic interest only, as no contracts were concluded. We cannot possibly know whether, had the coalition stayed in power for a longer length of time, it would have carried this decision out. To phrase it in other words, this episode is also a good example of the simple fact that the Greek government did not primarily base its decision making regarding the materialization of public works on economico-technical criteria.

References

Introduction

1. For typical isolated presentation with emphasis on party politics, see: Markezinis, *op.cit.*, pp.166-172.

2. All of the political spectrum was against foreign direct investments. (See Introduction to Book II).

3. For the argument that the chronic trade gap was at the heart of Greece's dependence vis a vis the outside world, see: A.Bernaris, *op.cit., passim.*

4. For, as has already been mentioned in the text, on June 31 1925 a law was passed that allowed the Pangalos cabinet to conclude according to its own discretion -and without securing expost the approval of the National Assembly- public work contracts.

5. For the Parliamentary debates on the issue and the ratification of the contracts, see: *Εθνικός Κήρυκας*, *op.cit.*, Vol.8, pp.240-271. For the fact that the coalition challenged the Belgian contract, see: Book II, Section I, Chapter 3.

6. For criticism of this project which enjoyed the open support of Whitehall and the Foreign Office, see: Veremis, (1982), *op.cit.*, pp.116-119.

Chapter 1

1. That Greece had the worse roads in Europe is mentioned in the R.I.I.A., The Balkan States, (London, 1936), p.148. For more details such as that in 1927 the availability of roads on a percapita basis was: 1,66 metres; and on a square kilometer basis 81,17 metres see: G. Haritakis (ed.), Οικονομική Επετηρίς της Ελλάδος 1935 (Economic Yearbook of Greece for 1935), (Athens, 1936), pp.147-149. Also for a description of the condition of Greek roads before and during the interwar period see: Naval Intelligence Division Geographical Handbook Series, Greece (London, 1944), Vol.II, pp.312-330. The quotation is from this publication, p.311.

2. In 1929, in old Greece there were 2,47 metres of road percapita, and 103,40 metres per square kilometre; whereas in New Greece there were only 1,61 metres per capita and 53,50 metres per square kilometre. Source: Economic Yearbook of Greece for 1929, p.238.

3. I.Metaxas, Απομνημονεύματα (Reminiscences), 1921-1932, Vol.C2, (Athens), p.837

4. We know of this association from La Grece Actuelle, *op.cit.*, pp.207-208. Makris apart from being the representative of Shell in Greece, was basically a paper manufacturing firm. B.M./V.A., File 66: Notes on public works (173) undated.

5. N.B.G./H.A., XXIII, Companies: Prometheus - File 1: Strictly confidential memorandum re: Messrs The P.G. Makris Trading & Industrial Co. ltd, dated July 31, 1929.

6. Also note that Shell declared that if for whatever reason the government failed to raise a loan through Hambros Bank, it was willing to lend on its own the required capital. See: *Εθνικός Κήρυκας*, *op.cit.*, Vol.9, p.74.

7. Hambros Bank had made it clear since 1924, that it wanted to raise all of the capital that would be required for the construction of the project through public subscription. Apparently Hambros Bank intended to cooperate with Samuel & Co. We know of the Samuel & Co. involvement from: B.G./T.A.: File 46, Document 21, memo prepared by Finlayson on June 14, 1928 titled: "Issue of Treasury bills & the Hambro-Speyer advances".

8. However, for the fact that a draft contract was presented see: Markezinis, *op.cit.*, p.168.

9. According to Metaxas during the final days of the Pangalos regime the department of public works advised the government to conclude a contract with this firm. However, it is difficult to ascertain whether this was actually the case. Metaxas, *op.cit.*, p.857.

10. That he took it for granted from the start that Makris would construct the project is obvious from the entries he made in his diary. See Metaxas, *op.cit*, p.505, entry of January 22, 1927.

11. Metaxas, *op.cit.*, pp.839,868.

12. For the details regarding the draft law for the holding of a national tender for the roads and the creation of an independent national road fund, for the two special parliamentary committees set up to examine them and for the opposition of the populist leader to them, see: *Εθνικός Κήρυκας*, *op.cit.*, Vol.9, Session of August 24 1927, p.46. The committees presented their reports on August 24, and the law was voted on August 27. Also: *G.G.*, First issue, Folio 199, September 20, 1927, Law 3404.

13. Markezinis, *op.cit.*, pp.166-172.

14. For the fact that Prezanis Kapsambelis was backed by American firms see: U.S.A./NAT., MA5/S/D//M443/31/868.51 Economic Matters: Skinner to Secretary of State, May 11, 1927. For the fact that definitive proposal was to be made after the lifting of the embargo see: Markezinis, *op.cit.*, p.172.

15. Parenthetically, for reasons of comparison it is worth noting that this British firm which was based in Sheffield demanded a level of remuneration of 28% (i.e equal to that of Makris), and the unit price analysis it prepared by this contractor was quite higher than that of the department of public works. As for the financing of the project its financial supporter, Barclays, was not willing to make a definitive commitment with regard to the long run financing of the scheme. It only offered to provide the £400,000 advance at 95.5% and at nominal rate of interest of 8%. Source: B.M./V.A., File 51: memo titled: "Greek irrigation contracts", July 30th, 1928. And Metaxas, *op.cit.*, p.869-871.

16. There were rumours that Prezanis' bid was 25% cheaper than the bid of Makris. Source: Karamanlis, *op.cit.*, p.258. Regarding the Cooperative Society of Northern Greece see: Metaxas, *op.cit.*, pp.849-850.

17. For Metaxas' ideological differences with Papanastassiou, see: N. Kastrinos, <u>Α. Παπαναστασίου, Ο Αναμορφωτής και η Δημοκρατία</u> (Al. Papanastasssiou The Reformist and Democracy), (Athens, 1975).

18. All this according to Metaxas. Markezinis also attests to the fact that the Fox Bros and Rallides were unworthy. Source: Markezinis, *op.cit.*, p.169.

19. Metaxas specifically referred to the fact that this Prezanis had done in the past a poor job at constructing Pireos Avenue, and was currently constructing road Lenorman at an exceedingly slow pace. Source: Metaxas, *op.cit.*, pp.559,860,890-891.

20. Unfortunately we have no indication on which merits the department of public works supported this offer. For the support Papandreou gave to this offer see: G.Kasimatis, P.Petrides, A.Sideratos, <u>Γεώργιος Παπανδρέου (1888-1968)</u> (George Papandreou (1888-1968)), (Athens, 1988).

21. The offer was made by Blair in February because finally, the war debt embargo imposed by the State Department was lifted on January 18, 1928.

22. The Fox Brothers also offered to provide a loan for Prezanis-Kapsambelis under the same terms. However, this offer was not taken seriously because purportedly this banker was not reliable. Metaxas slighted this offer by exposing the fact that this banker had offered such a good loan price because the contractor had undertaken to cover this 2% difference. (The idea being that if the contractor payed this 2% to the banker the quality of the works would suffer). Source: Metaxas, *op.cit.*, pp.887,891-892.

23. Metaxas, *op.cit.*, p.561

24. Metaxas claims in his diary that on February 3 1928 he finally convinced Makris to accept the price analysis of the department of public works. See Metaxas, *op.cit.*, p.560. But, the press insinuated that Makris adjusted its pecuniary demands to a lower level at a later date. See: *Πολιτεία*, April 20, 1928.

25. On February 10 1928 he presented to the National Assembly a report on the need to proceed with the reclamation of the Struma valley, and on February 11 he announced the tender.

26. See reference 7 above.

27. M.F.A./H.A., File A/14 1928-1929, Struma works, Michalakopoulos to the Greek Embassy in Washington, April 9, 1928; and a memo prepared by Politis, April 18, 1928. Also M.F.A./H.A.: File A/14, 1928-1929, Struma Works, Venizelos to Greek Embassy in London, September 8, 1928.

28. M.F.A./H.A., File A/14, Struma works: Simopoulos to Ministry of Foreign Affairs, April 11, 1928; and Politis document mentioned in reference 28.

29. Hambros through its American associates indirectly contacted the State Department. According to Hambros they ascertained that the issue of the ratification of the Second Refugee Loan by the American congress was wholly dissociated with the road contract;and that the State department would put pressure on Congress for an expedite ratification. Source: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan: Hambros to N.B.G., April 11,12,13, 1928.

30. The decision to assign this project to Monks Ulen was taken on May 12 1928. M.F.A./H.A., File: A/4, 1928-1929, the Struma works: Venizelos to the Greek Embassy in London; Goold to Venizelos, August 9, 1928.

31. For the contract signed between the government and P.G. Makris & Co. on May 18 1928, see: *G.G.*, First issue, Folio 94, June 2, 1928.

32. For the interest of the American Ambassador in Blair, see: M.F.A./H.A. A/14/4/1928 Michalakopoulos to Simopoulos, March 1 1928. Also: U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: Division of Near East Affairs to Shaw, June 8 1928. For the fact that the State Department did not want to interfere among competing American firms see: U.S.A./NAT/MA5/S.D./443/31/868.51 Economic matters: Kellog to American Legation in Athens, June 13, 1928. For the attitude of the British see: FO371/12918/C8639/19 Sir Percy Lorraine to Sargent, November 12, 1928.

33. Metaxas, *op.cit.*, p.549; and Karamanlis, *op.cit.*, pp.257-259.

34. It should be noted that the net remuneration was only 22.5% for the contractor. Being a Greek firm, it was submitted to a 2.5% tax on the value of the works. N.B.G./H.A., XXIII Companies, Prometheus, File 1: A comparison of the terms of the Makris contract with those of the Struma - Drama.

35. Metaxas, *op.cit.*, p.879.

36. Confusion exists as to how many kilometres were going to be constructed. Elsewhere the number 2,500 klms is mentioned, elsewhere 3,000 and elsewhere 4,000 is mentioned. In the 1929 Economic Yearbook of Greece, pp.239-240, the number mentioned is 2,543,450 metres. Also in this edition, it is mentioned that the total of roads in 1927 was 10,340. Meaning therefore that with this project there was to be a 30-40% net increase in Greece's roads. Supposedly the contractor was going to repair about 2,000 klms of old roads as well, but we do not know to what extent this actually materialized.

37. We do not have official data regarding the cost of the project. However, it was reported in the press and in parliament that it was exorbitant. See: G.Pesmazoglou, "Τα παραγωγικά Εργα. Η Χρηματοδότησις και Εκμετάλλευσις Αυτών", (The Public Works - their Financing and Exploitation), in: *Τεχνικά Χρονικά*, Vol.1, 1932, p.23.

38. Economic Yearbook of Greece for 1929, p.238.

39. For 19th century practice see Synarelli, *op.cit.*, p.111.

40. Economic Yearbook of Greece for 1935, pp.136-137. Also, Economic Yearbook of Greece for 1932, pp.297-298. Also, see law 4571 of July 8 1931 and law 6166 of July 10 1934.

41. For the estimates see: *Εθνικός Κήρυκας*, *op.cit*, Vol.9, Session of August 24 1927, p.46. For the actual level of employment see: G.L.H.A./D.A., Document 37/29, titled: 'Makris Road Works', March 26 1930.

42. Pesmazoglou, *op.cit.*, pp.21-26

43. R.I.I.A., (1936), *op.cit.*, p.148

44. Hambros in order to promote the Makris proposal had put forward on March 31 an offer to provide a £1,000,000 temporary loan in the event that the government assigned the project to P.G. Makris. But, though this offer, was well received by the government it did not materialize because it was not given the seal of approval of the National Assembly. (See below: Book II, Section II, Chapter 2, 2.2.2.)

45. The agreement signed for this advance exists in the: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan. It was granted at a rate of 8% per annum and had a redemption period of 4 years.

46. A top official of this firm claimed that in late 1927 Diomedes and Michalakopoulos (who at the time was minister of Foreign Affairs) wanted The Foundation Co. to carry out the Struma Reclamation. Source: U.S.A./NAT: MA5/S.D./M443/31/868.51 Economic Matters: Quilter to The Foundation Co. Foreign, New York, December 12, 1927.

47. The problem is that we do not know when this agreement was signed and what exactly were its terms. Source: B.G./T.A., Document: 46/21, memo prepared by Finlayson, on June 14 1928, titled: "Issue of Treasury Bills & The Hambro-Speyer Advances".

48. N.B.G./H.A., New Archives Γ, File 10, Drossopoulos to The Foundation Co. Foreign, February 20, 1928. Also N.B.G./H.A., New Archives Γ, File 10: Diomedes to Vice President of The Foundation Co., July 7, 1926. As an official of The Foundation Co. noted: "This method of collaboration with local firms has been already applied by us in many different countries...". N.B.G./H.A., New Archives Γ, File 10: Quilter to Diomedes, February 8, 1928.

49. B.M./V.A., File 333: C.Boot to Venizelos, July 6 1928.

50. That Metaxas was sympathetic towards the Boot offer can be construed from the entry in his diary on May 10 and 12 1928, diary, p.574. For opposition of Kafandaris and Michalakopoulos to British proposal see: Metaxas diary entry of February 29 1928, p.566.

51. B.M./V.A., File 51, memo titled: "Greek irrigation contracts", July 30th, 1928.

Chapter 2

The Question of Public Work Financing

2.1. American Bankers 'Discover' Greece

No loan for public works was raised during the coalition's term in office. However, soon after Pangalos' fall American banks began to show an interest in providing financial backing for various projects. Up till then American bankers had been content to play a secondary role in two syndicated loans (the 5% Loan of 1914 and the First Refugee Loan of 1924) raised by British houses. The circumstances surrounding the post-Pangalos spurt of interest on the part of American financiers are of special significance for two reasons. First, they attest that the State Department did not -at least at this point of time- promote in an aggressive manner U.S.A. banking interests in Greece.[1] Second, they are indeed 'peculiar' considering that American capital (banking or corporate) did not in the end participate in the financing of the two large 'land development' schemes assigned to American contractors. (The reclamation of the Vardar valley, and the drainage of the Struma valley). It is ironic that the first and last public work to be financed partly by American capital was the Athens water system. Notably, the funds had been provided by the American contractor, not by a U.S. bank.

The first U.S. banking firm to show an interest in financing infrastructure development in Greece was Speyers. This company had been brought into Greek affairs by Hambros Bank in 1924 at the time of the flotation of the First Refugee Loan on the understanding that it play a secondary role and not act independently. However, in August 1926, one month after the downfall of Pangalos it "betrayed" its British colleague, and contemplated providing a $15,000,000 short term loan to the Greek government. This would be used to complete the settlement of the refugees, retire Ulen & Co. bonds, repay the $2,000,000 advance from The Foundation Co., and advance the construction of the Athens water system and reclamation work in the Vardar valley.

This Speyer offer did not materialize. The government, even if it had wanted to float such a loan, could not have proceeded, largely because of the unofficial "war debt embargo" imposed by the State Department.[2] On receiving notice of Speyer's intention to issue the loan, the State

Department declared that "for reasons of national interests" it could not "view with favour any Greek flotation in the United States".[3] This was sufficient to kill the project. Notification to the State Department during the twenties was a routine procedure for U.S. banks engaged in foreign loan negotiations. Though the Department did not 'initiate' foreign investments "no instance has been revealed of any public financing being undertaken against the State Department's wishes".[4]

During 1927, although the State Department continued its ban on the flotation of Greek securities, eight other American banks entered into negotiations with the Greek government to finance public works. They were Blair & Co., J.W.Seligman & Co., Chase Securities Co., Harrisson H. Wheaton Inc., W. Harriman & Co., International Acceptance Bank, Chase National Bank, and P.W. Chapman & Co.[5] The archival material reveals that the first two bankers made bids to finance the reclamation of the Struma and Thessaly valleys.

Not surprisingly, Hambros Bank was highly displeased with the unexpected surge in American competition. **Sir Eric Hambro took it for granted that his firm would be responsible for financing all Greek government infrastructure projects.** It was Hambro's perception that other banks (British, American or of whatever other nationality) would be called to participate in such flotations for public works only in the event and to the extent that Hambros thought it necessary. Sir Eric's intention was to put this plan into practice after the City lifted its war debt embargo and after the Treasury and the Financial Committee of the League completed their stabilization plan in Greece. By the spring of 1928 U.S. competition had become more apparent as a result of the lifting of the war debt embargo in January 1928 by the State Department. (See Book I, Section III, Chapter 2, 2.2.1.)

However, as will be shown below, although Athens wanted to relieve itself from financial dependence on London, in the end Sir Eric was victorious and managed to oust his American competitors from the scene.

2.2. Hambros Initially Unsuccessful Attempt to Ward Off the American Challenge During the First Half of 1928

Chronological Summary

January 1928:	The Stabilization Loan is floated.
April 1928:	Charles Hambro puts forward to the coalition an offer to provide an overdraft for the road network and the Vardar valley.
May 12, 1928:	The coalition cabinet decides to assign the financing of the Struma reclamation project to the American firm W.Seligman & Co..
May 14, 1928:	The Bank of Greece begins operating, and the de jure stabilization of the drachma is established.
May 18, 1928:	The coalition signs a contract with the Greek firm of P.G. Makris for the construction of a national network of roads. Hambros provides a temporary advance of £400,000 in order to make possible the immediate commencement of the works. No decision is taken regarding the long-term financing of the project.
June 1928:	Seligman makes an offer for a temporary overdraft for the road scheme and the Vardar valley which has better terms than those offered by Hambros Bank.
July 4, 1928:	Elections are held and Venizelos becomes Prime Minister. During his first days in power he declares that he will break the Hambros monopoly in Greece.
Mid July, 1928:	Venizelos decides that the government should raise a comprehensive long term bond loan which will cover the required expenditures for the Vardar valley and all the new projects to begin (i.e. the road construction, Struma valley.) The Prime Minister. promises to the American firm Seligman that it will raise the total sum of this bond loan (i.e. £15,000,000).

2.2.1. Introductory comments

Post stabilization public borrowing for infrastructure development began with the First Public Works Loan of December 1928, floated by Hambros. The developments leading to the conclusion of this loan were particularly complicated. Hambros encountered keen competition from American financiers. Infact, up till two months before the loan was raised (i.e. October 1928), it appeared more or less certain that bonds would be placed through U.S. houses.

In the battle that developed between American and British financial interests, the Greek government was confused and uncertain as to its position. Indeed, the evidence leads us to conclude that the government was basically a passive observer of the warfare enacted before its very own eyes. The state was torn between two rivals. One was composed of the Bank of Athens and Seligman. The other consisted of the National Bank of Greece and Hambros. The weakness of the state vis a vis two antagonistic banking groups has been neglected in the existing literature which maintains that the state was a competent diplomat and actively exploited Anglo American rivalry for its own advantage.[6] Moreover, the literature fails to notice that the Anglo-American rivalry was connected in a subtle way with an internal conflict, namely antagonism between the Bank of Athens and the National Bank of Greece. Politics cannot be separated from economics and the position of the state towards foreign capital was primarily a function of internal politico-economic considerations rather than foreign policy pressures.

2.2.2. The facts

At the beginning of 1928 Hambros was engulfed by preparations for the flotation of the Stabilization Loan. However, in view of the increasing interest of American financiers in Greece - as had been aptly demonstrate by the road work and land reclamation tenders- the merchant bank was also deliberating how to outdo American competition in the field of public work financing. This was no small affair, considering that the estimated total expenditure was around £18,000,000.

Hambros was able to participate in the road tender by backing the firm of P.G. Makris. However, regarding the international competition for the two reclamation projects it remained effectively an outsider. Reportedly as a rear-guard defensive action it had made some kind of working arrangement with Blair, the financial backer of The Foundation Co. which was one of the main bidders for these two schemes. Hambros was not pleased, by the thought that it would not finance the two reclamation projects costed at approximately £8,000,000. In addition, it was disturbed by the prospect that the coalition might float the loan for these two schemes in the immediate future. At this point Hambros appeared to believe that the government should not resort to large scale foreign borrowing for about twelve months in order to allow the international capital markets time to absorb the Stabilization bonds.[7] One might ask why Hambros did not mobilize the League, the Bank of England and the I.F.C. to 'defend' Greece's credit.

However, Hambros did not remain totally passive. The Bank offered to provide together with what it called its American group -i.e. Speyer's and the National City Bank- an overdraft of £1,000,000.[8] This sum would be sufficient to enable the government to carry on the Vardar valley reclamation scheme without resorting to the world financial market for one year.[9] That

Hambros presented the overdraft proposal as a joint Anglo-American proposal is a good example of the flexibility and realism that it at times showed while pursuing its strategy towards Greece. Hambros reached the decision to present its offer as a joint Anglo-American and not a pure 'Anglo' affair presumably for two reasons. It did not want to risk the possibility that these bankers might again strive for an autonomous presence in Greece given that during the previous eighteen months Speyers and the N.C.B. had developed an interest in financing Greek public work schemes. Furthermore, Hambros was well aware that the government would be favourably disposed towards a joint Anglo-American proposal for two reasons. The American Congress had not yet ratified the agreement for the provision of the refugee credits and Hambros Bank was unpopular among members of the cabinet and the radical opposition. Meanwhile, in late March, Charles Hambro offered to provide an additional £1,000,000 overdraft for the road works, on the condition that the project would be awarded to P.G. Makris. As indicated above, the timing of this 'second' proposal shows that Hambros wanted to assist Makris and create for it a comparative advantage vis a vis the other chief competitor-Prezanis Kapsambelis.[10] Hambro was not interested in making an extraordinary pecuniary benefit from the twin £2,000,000 overdrafts. Indeed, the price asked for the two combined overdrafts (which would be amalgamated into one loan) was a 'fair' one. Roughly speaking the interest rate (plus commission) would amount to 6.5%.[11] This merchant banker saw the overdraft primarily as a mechanism by which it could tie the hands of the Greek government and restrict its freedom to raise loan capital from other financiers for all of the projects for which no financing arrangements had yet been made.

That this was Hambro's ultimate intention is revealed from the type of demands made regarding security for, and repayment of, the loan. Specifically, Hambros demanded that the government pledge for the duration of the advance all unissued bonds of the 1914 loan. It was no secret at the time that the only guarantee the government possessed in order to conclude short term advances were these bonds which had a market value of approximately £4,500,000.[12] A pledge of only a part of these bonds would have been more than sufficient to back the advance. However, Hambros wanted to tie up the whole issue and so deprive the government of the possibility of using the balance to raise foreign capital from other bankers for the Struma - Thessaly reclamation projects or for any other purpose.

As for the mode of repayment, Hambros wished to follow a procedure usual for Merchant Bankers.[13] Namely, he demanded in return for providing this short term advance that the government at the end of one year roll up the £2,000,000 short-term advance and incorporate it with a larger issue which would be large enough to cover the twin overdrafts, and the cost of the Vardar valley and the road works for an additional two more years.[14]

The government was theoretically given two options. It could either assign to Hambros the flotation of a long term bond loan or it could dispense with a public emission and allow the bank to purchase the unissued bonds of the 1914 loan.[15] However, a careful look at the draft agreement prepared by Hambros shows that it seemed to prefer the first option.[16] The coalition cabinet approved the Hambros twin overdraft proposal. (i.e. that a £2,000,000 advance be granted for the Vardar valley and the road scheme) On May 14 1928, it presented to Parliament a draft bill which described in detail the terms of the offer.[17] The parliamentary debates and the deliberations of the parliamentary committee, set up to examine the draft bill demonstrate that it was basically those progressive deputies who had criticized Makris' bid for the road project who now objected to the Hambros advance.[18]

Criticism focused on the fact that Hambros wanted to pose serious limitations on the government's freedom to borrow. Indeed, the minister of finance, Kafandaris, was caught in a difficult position when he was asked in Parliament how the schemes for the reclamation of the Struma, Thessaly, and Epirus valleys "were to be financed temporarily so as to get work started at once" considering that the only available backing for an advance, i.e. the bonds of the 1914 loan, were to be used as security exclusively for the Hambros overdrafts for the road scheme and the drainage of the Vardar valley.[19] **The intention to tie the hands of the government became all the more apparent as time went by.** Notably, in the contract prepared while the parliamentary committees were deliberating the draft bill, Hambros rephrased some of the terms in such a manner so as to increase its power to control future government long-term foreign financing. The most blatant provision was that it inserted a totally new clause without consulting the minister of finance. This was that "if and so long as any term of this Agreement remains unfulfilled" -i.e for the duration of the advance- the government could not "without the consent of the Banks [i.e. Hambros, Erlangers, Speyer & Co., and The National City Bank of New York] raise any external loan."[20]

In view of the resistance to the draft bill for the advances in the National Assembly, Hambros in mid June came up with the suggestion that it extend the duration of the overdrafts from twelve months to eighteen months and increase their value from £2,000,000 to £3,000,000. The aim being that the additional £1,000,0000 would be used for the reclamation of Struma, Thessaly and Epirus. However, this 'new' offer did not sway the National Assembly. The latter rejected it on the grounds that it would be scandalous if Hambros were allowed to get involved in the financing of other projects in addition to the road scheme and the reclamation of the Vardar valley. Moreover, Monks-Ulen, and Boots openly declared that they did not view Hambro's new proposal favourably as they had their own financial backers.[21] It must be reminded that by this stage the coalition had decided to assign the reclamation of the Struma valley to Monks-Ulen, and that of Epirus to Boots.[22] In the end, the twin overdraft was not approved. The National Assembly refrained from voting on the draft bill and on June 20, 1920 Hambros withdrew its offer.[23] Consequently, because the twin overdraft was not furnished, in August 1928 Hambros provided jointly with Erlangers and Samuel & Co. the £400,000 advance it had undertaken to supply within the context of the contract that the government had signed with Makris for the road scheme on May 18. This credit was to be repaid over a period of four years at 8% - a rather high rate. But, the terms posed did not restrict the government's freedom to conclude further foreign loans. Neither was the government obliged to offer the unissued bonds of the 1914 loan as security.[24]

This whole affair underlines certain interesting aspects of the role played by the various institutions regarding the inflow of foreign capital. First, it highlights that contrary to what has been argued in the literature, the National Assembly was not a passive observer of the phenomenon of foreign capital inflow. Up to this point in the dissertation we have seen how this institution 'assisted', through the ratification process, the government to impose on foreign capital terms that were more advantageous for Greece. In this instance we have seen how the Assembly blocked the advance altogether.[25] Second, it reveals the insecurity and lack of sincerity of the government. The latter wished to hide from the public the fact that it was a weak partner in its dealings with foreign capital. To be specific, in public the coalition stated that on its **own** initiative it proceeded with **direct** negotiations with Hambros for the provision of an overdraft.[26] But, the above was not true. The idea for the provision of the overdraft was Hambro's. Third, the affair is a good example of the close relationship that had developed between the National Bank fo Greece and Hambros Bank. The National Bank morally backed the proposal for the advance and also transmitted to the government the details of Hambros offer. Once again the N.B.G. was called upon to act as the representative of British interests vis a vis the Greek government. It should be remarked that Charles Hambro in March 1928 visited the Greek minister of Finance together with the governor of the National Bank. After Charles departure the N.B.G. carried out the necessary negotiations with the government on behalf of Hambros. The wording of the telegram sent by Hambros regarding the firm offer made for the advance is interesting as it indicates that it treated the National bank as an 'appointed agent'. Therein Hambros stated to the National Bank of Greece: "We authorize you to present to the Greek government our firm offer...". But, it is equally obvious that the National Bank was not a passive "go between", and that it tried to convince Hambros to be more flexible in its demands.[27] Finally, this incident also confirms the tight links that Hambros enjoyed with Greece's formal supervisors. A good indication of this is that Finlayson (the advisor appointed at the newly founded central bank - the Bank of Greece- by the League of Nations) prepared a memo in which he underlined that the government should accept the twin overdraft offered by Hambros.[28]

References

1. During the twenties the State Department "did not 'approve'foreign loans but merely 'offered' no 'objections'". This organization exercised an "informal" type of "negative control" over foreign investments. It posed embargoes when "necessary", but it did not "initiate or direct" foreign investments. Source: J.Madden, M.Nadler, H.Sauvain, America's Experience as a Creditor Nation, (New York, 1937), p.245.

2. A war debt embargo was applied by the U.S.A. against other countries as well. See: Madden et.al., *op.cit.*, pp.242 -244.

3. Speyer, in order to provide this loan, asked as a guarantee that the government pledge £6,000,000 of the unissued 1914 bonds. Unfortunately we have no information on the other terms posed. Source: U.S.A./NAT/MA5/S.D./M443/33: August 2, 1926, memo prepared by Near East Division.

4. Madden, et.al., *op.cit.*, p.243.

5. U.S.A./NAT/MA5/S.D./M443/31 858.51. Economic Matters: Castle to Wheaton, May 12, 1927; memorandum of a conversation between the office of the economic advisor of the Department of State and Dennis of Seligman & Co., August 6, 1927; Castle to Wheaton, January 28, 1928; and memo of the Division of Near Eastern Affairs, January 28, 1928. Also, see U.S.A./NAT/MA5/S.D./M443/32 868.50. Economic Matters: Barc to Secretary of State, September 24, 1927; memo of discussion with K.Barham prepared by the office of the economic advisor, October 5, 1927; Goold to Secretary of state, August 25, 1925?(7). Also: B.M./V.A.: file 66, memo on public works, undated. Also, during 1927 Blair & Co. was negotiating with the municipalities of Salonika and Pireaus for a $8,000,000 loan. Source: U.S.A./NAT/MA5/S.D./M443/32. Economic matters 868.50: Skinner to Secretary of State: May 11, 1927. This offer was still being contemplated as late as April 1927. Source: U.S.A./NAT/MA5/S.D./M443/33. Economic matters 868.50-868.51: Castle to Speyer, April 22, 1927.

6. Karamanlis, *op.cit.*, Chapter 8, pp.226-270.

7. N.B.G./H.A., XXII Banks, N.B.G. and Foreign Banks, File 67, correspondence with Hambros: C.Hambro to Drossopoulos, May 3, 1928.

8. This offer was made to Kafandaris and Metaxas. Half of the amount would be provided by Hambros and half by its American associates. When in March Hambros increased the offer to £2,000,000 it was specified that it would consist of £1,000,000 and $ 5,000,000. Source: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public works loan: C.Hambro to N.B.G., April 3, 1928.

9. Half of this overdraft would go towards repaying The Foundation Co. for the temporary loan that it had provided to the struction of the Vardar valley for the coming year. Source: B.G./T.A., 46/21: memo prepared by Finlayson on June 14 1928, titled: "Issue of Treasury bills & the Hambro-Speyer advances".

10. For according to law 3404 which the National Assembly had passed in September 1927 "for the construction and maintenance of public roads and the conclusion of a loan" the builder would be required upon the commencement of the building to secure a temporary advance of only £400,000, and not £1,000,000. Source: *G.G.*, First issue, Folio 199 of September 16, 1927.

11. This was not a large amount considering that the interest charged for the £400,000 advance provided by Hambros and its British associates in August 1928 was 8%. The exact interest rate to be charged for the overdraft was not specified. But, it was stipulated that it would be at least 5.5%, and that in the event that it was higher Hambros undertook not to charge more than 1% over the Bank of England discount rate. The banking commission to be charged was fixed at 1% of the total amount of the facility (i.e. it was £2,000,000). Source: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public works loan: Hambros Bank to National Bank of Greece, March 27, and April 3 1928.

12. These bonds had a nominal value of £6,000,0000 and it was estimated that they stood at 75%. (i.e. they had a real value of £4,500,000). Thus, the unissued 1914 bonds were equal to more than twice the amount which was to be lent to the government. Indeed in the event that Hambros lent only £1,000,000, this security would be three times over the advance. Same source as reference 9 above.

13. It was usual for bankers to behave in this manner, i.e. to provide a short term advance and demand in return from the borrower that it undertake the commitment to borrow a larger sum on long-term basis at a later date. See: Dunn, *op.cit.*, p.103.

14. By extrapolation it can be deduced that effectively Hambros wanted to make an issue of roughly £5,000,000. The draft contract prepared simply stated that the issue would be equivalent to: a) the amount of the overdraft then outstanding; plus b) the total cost of the works to be carried out by the contractors (The Foundation Co., and P.G. Makris & Co.) during the following two years (i.e. 1930 and 1931).

15. In the event the second option was chosen, Hambros' intention was to buy all of the unissued bonds. As it already owned quite a large number of such issued bonds it could artificially depress their price in the international capital market before buying the unissued ones from the government. Naturally, this was a good deal as these bonds were guaranteed by the I.F.C., and therefore when Hambros placed them they would be sold at a good profit. Also it was argued that the price at which these bonds would be purchased would be four points below the average market bid prices for Greek government 1914 bonds ruling on the London Stock Exchange during the 15 days preceding the date of purchase.

16. Hambros demanded to be given first option and equal preference in the event that the government decided to proceed with the flotation of a long-term bond loan. In return, it was willing to release the government from the obligation (it had undertaken with regard to the financing of the Vardar valley project) to accept a Hambro loan offer if its terms were at least as good as those of the Stabilization Loan. Source: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan: Hambros Bank to N.B.G., March 27, 1928. For the fact that Hambros presented this new 'offer' only as a bait in order to enhance its chances of selling the idea of the advance to the Greek government. Source: N.B.G./H.A., X Loans, A' Public loans, File 141, Public Works loan: C. Hambro to the National Bank, April 3, 1928. Also, same file: Explanatory report prefacing the draft law presented to the National Assembly on May 14, 1928.

17. This draft bill was titled "[for] the conclusion of a loan for the financing of the construction of hydraulic works in the Salonika plain [i.e. the Vardar valley] and the construction-maintenance of public roads". Public Loans, File 141, Copy of two memoranda, one for the Vardar valley and the other for the roads. N.B.G./H.A., X Loans, A' Public Loans, File 141, Public works loan: C.Hambro to Kafandaris, March 20, 1928.

18. *Εθνος*, June 5, 1928. Also, N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan: deputy governor of the National Bank of Greece to Hambros Bank, June 10, 1928.

19. Same source as reference 9 above.

20. A similar clause had been imposed by the Bank of England when it had provided back in 1923 advances against the First Refugee Loan. Infact, Hambros had also rephrased other terms of the draft contract in such a manner that they no longer conformed with the spirit of the draft bill. Source: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan: "Translation of a letter of the ministry of Finance of the Greek Republic addressed to the National Bank of Greece, Athens and dated in Athens the 71h of June 1928". In same file see also copy of the draft agreement, article 10.

21. N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan: Kafandaris to Hambro, June 8, 1928; Hambros to Drossopoulos, June 8, 1928; deputy governor of the N.B.G to Hambros June 10, 1928.

22. The Hambros revised offer enjoyed the full support only of the contractor of the road network. See: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan:Makris to Koryzis, June 14, 1928.

23. Hambros before withdrawing his bid in a gesture of conciliation had offered that the £3,000,000 be employed only for the Vardar valley and the road works. But this offer made no impression on the National Assembly. Source: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan Hambros to N.B.G. June 18 (?), 1928. Also note that Metaxas had doubts as to whether the withdrawal was real or just a manoeuvre. Source: Metaxas, *op.cit.*, p.579.

24. As security the government offered: the surplus revenues of the I.F.C. remaining after the service of: a) all existing Loans floated before May 12, 1928 (i.e. the date when the road contract was signed); b) the Second Refugee Loan which was to be issued, c) any loan to be raised for the Vardar valley or any other public work project. In addition, the government offered as security the proceeds of a special taxation and of the tolls that the Greek government might levy in the provinces that were to benefit from the works specified in the road contract. Source: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan: Copy of the agreement for the £400,000 advance signed in August 1928. See also same File: Hambro to N.B.G., March 27, 1928.

25. For the argument that the National Assembly was a passive observer of the government's policy, see: A.Tounta-Fergadi, "Η Επίδραση του Κοινοβουλίου στη Διαμόρφωση της Ελληνικής Εξωτερικής Πολιτικής: 1923-1934" (The influence of Parliament on the Formation of Greek foreign policy: 1923-1934), in Th. Kouloumbis, D.Konstas, (eds.), <u>Το Ελληνικό Κοινοβούλιο στην Εξωτερική Πολιτική 1974-1984</u>, (The Greek Parliament in Foreign Policy 1974-1984), (Athens, 1986), pp.59-70.

26. *G.P.D.*, First Assembly, Second Period, Vol. B, Minutes of Session 60, June 1928, p.14., and session 69, April 16 1928, pp.1347-1365.

27. The National Bank of Greece suggested to Hambros that it withdraw its demand that the unissued bonds of the 5% 1914 loan be offered as security and that Hambros "try to effect an agreement" with the backers of the reclamation schemes so as to present to the government a "united" offer for the £3,000,000 advance. We do not know whether Hambros actually followed this advise. See: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan: Explanatory report prefacing the draft law presented to the National Assembly on May 14 1928.

28. Apparently, he maintained that it should be granted and that it "was a class in itself, i.e. that it did not fall within the rubric of article viii of the Geneva Protocol which stipulated that the government undertook not to seek short term obligations in excess of 800 million drs. As Finlayson wrote" ...it is not of a 'ways and means character' (i.e. it does not repose on budget revenue that has not yet been collected) nor does it mean the piling up of a foreign debt. It is merely credit given against collateral, an installment of a loan secured on a realizable guarantee." Does the existence of this memo in the Tsouderos archive prove, show that the F.C. or and Tsouderos also expressed objection to this overdraft? Same source as reference 9 above.

SECTION III

PUBLIC WORKS UNDER THE GOLD EXCHANGE STANDARD REGIME

(mid 1928-early 1932)

Introductory Comments

Less than three months after stabilization was attained, Venizelos, the outstanding Greek statesman of the interwar period and an enthusiastic supporter of infrastructure development, returned to power. He stayed in office for four years-which was a remarkable feat for a Greek politician! (Between November 1922 and Venizelos' advent to power in July 1928 there had been 10 different cabinets). Seen in a larger compass, at long last, in 1928 the country joined the new postwar international order. Hence, the obvious question is why foreign capital inflow for public work development under the gold exchange standard regime was below the expectation and relatively insignificant in comparison with the experience of other similar countries? A number of factors were responsible for this 'disappointing' development. It is obvious that Greece stabilized too late in order to reap the full benefit of the large international capital movements of the twenties. Already by 1928, there was a net flow of capital from Europe to the U.S.A. American capital was beginning to loose interest in European investments and the unfolding of the World economic crisis was approaching. It is also the case that the stabilization plan did not have the expected impact (end results) because Venizelos acted in a haphazard (ad hoc) manner with respect to the expansion and modernization of the country's infrastructure and 'unwittingly' scared away foreign capital. He made two mistakes. First, immediately upon stepping into office he began to antagonize Greece's foreign supervisors on issues of a financial nature. Pointedly, he wanted to alter certain of the terms of the September 1928 Geneva Protocol. (For details see: Book I, Section III, Phase Three, 1). Also, in December 1928 he made it known to the market that there would be a steady flow of new issues, as the government intended to borrow a total of £22,000,000 for public works over the next five years! An additional negative factor was that Hambros in its urge to dominate the Greek scene 'unintentionally' damaged Greek creditworthiness in December 1928. (See Book II, Section III, Chapter 2).

This dissertation argues that already by early 1929 the inflow of foreign capital had become problematic as a result of the mistakes made by Venizelos and Hambros. The literature has completely overlooked this factor. In its overall superficial reference to the phenomenon of the poststabilization capital inflow it has overestimated the negative impact which the world economic crisis had on the performance of the public works programme.[1] To put it in a nutshell, though undoubtedly the world economic crisis may have dealt the final blow, a careful study of the facts reveals that it was neither the sole nor the original causal factor responsible for the lack of the necessary funds.

The Economic 'Philosophy' of Venizelos

In terms of the thesis, Venizelos' economic philosophy is of particular interest. His ultimate goal was that Greece achieve political autonomy **vis a vis** the 'Powers. Although he had a less than rudimentary grasp of economics, he realized that unless the country rid itself of the chronic structural disequilibrium in the balance of payments, political autonomy would never be attained. It was within this context that he embraced and proclaimed self-sufficiency in basic goods. Thus, Venizelos perceived economic autarky not as an end in itself -he was no isolationist- but rather as a means that would allow Greece to be treated as an 'equal' by the powerful.

The road towards self-sufficiency, according to Venizelos required a massive inflow of foreign capital. Only thus would the country be able to maximize the full potential of its resources. For as he put it back in 1910 "Greece is not poor it is unexploited". This statement came into contrast with the conventional wisdom of the day which was utterly defeatist.[2] Venizelos tried to carry out his vision right after WWI. In January 1919 he announced that a state-directed public works programme (manifesto) would be undertaken by foreign capital in order to enhance the agricultural and industrial development of the country. It would concentrate on three types of activity: the extension of the cultivable land area- along the lines of the Italian 'Bonifica integrale', the improvement of the transportation network, and the exploitation of the country's energy resources. The specific schemes planned were: the reclamation of the Vardar, Struma, and Thessaly valleys; the provision of a water work system for Athens and Salonika; the production of hydroelectric power in Western Macedonia and Central Greece; the improvement of the ports of Pireaus, Salonika, and Patras; and the building of a railway line connecting Kavala and Drama. Venizelos also had in mind the experimental drilling of oil wells and coal mines in various areas of Greece. He discussed with French and British firms the possibility of undertaking the projects but no final agreements were reached, and interest in this ambitious program was lost as the Greek government eventually engulfed itself in the Asia Minor Campaign.[3] Indeed, the unfortunate concurrence of this military expedition provokes us into the realm of counterfactual history: it would be interesting to consider what might have happened had the resources devoted to the Asia Minor Campaign (which approximately amounted to £140,000,000) been applied to the Venizelos programme - manifesto). (Table 1) When Venizelos returned to office in 1928, his predecessors had already begun the implementation of a part of this programme, namely, the Athens water works, the reclamation of the Vardar valley, the improvement of the port of Pireaus, and the extension of Greece's communication network. It is ironic that during his four year stay in office, Venizelos managed to begin only one more project, the reclamation of the Struma valley. Moreover, it is notable that he was not able to complete either the latter nor the other schemes that had begun before 1928. The problem was of a twin nature- poor planning and a lack of funds. Only after WWII would these projects take full shape.

Table 1

Average Daily Cost of the Asia Minor War*
in million drachmae

Year	Daily Cost
1919	2,8
1920	3,5
1921	6,8
1922	8,0
1923	6,5

*These estimates were made by British embassy in Athens. By extrapolation the total cost in pounds was approximately £140,000,000.

Compiled from, History of the Greek Nation, Vol. IE, p.300.

Venizelos' performance - considering his initial grandiose vision- was indeed poor. The historiography has failed to assess in an objective manner his overall contribution to the public works programme. At the one extreme, it is argued that the interwar infrastructure projects was the sole creation of Venizelos. This is wrong for as has been shown above, though he was the first to visualize a grandiose public works program, it turned out that a large part of what was actually carried out **started** before his 1928-1932 term in office. At the other extreme, it is maintained that all he did was to continue what his predecessors had started. But this as well is a misinterpretation of the facts because it fails to recognize that Venizelos was the one who back in 1919 provided the inspiration for what was to follow.[4]

Chapter 1

The 'Rebellious' Opening: Venizelos Versus Hambros

Chronological Summary

June 20, 1928:	Hambros withdraws its offer for an overdraft(s).
June 1928:	Seligman makes an offer for a temporary overdraft for the road scheme and the Vardar valley which has better terms than those offered by Hambros Bank.
July 4, 1928:	Elections are held and Venizelos becomes Prime Minister. During his first days in power he declares that he will break the Hambros monopoly in Greece.
Mid July, 1928:	Venizelos decides that the government should raise a comprehensive long term bond loan which will cover the larger part of the required expenditures for the Vardar valley and all the new projects to begin (i.e. the road construction, Struma valley). The Prime Minister promises to the American firm Seligman that it will raise the total sum of this bond loan (i.e. £15,000,000).

Venizelos upon returning to power in early July 1928, vowed that under his leadership the government would become more assertive in its dealings with foreign capital. The new Premier was highly critical of his predecessors handling of Greece's external economic relations.[1] He accused them of having settled the French war debt on unfavourable terms, and for conferring on Hambros the privilege of becoming the Greek state's 'exclusive' supplier of foreign loan capital. Clearly, Venizelos spoke as if a 'closed relation' had been established between previous governments and the bank prior to his return to power.[2] But, this was not the case. Out of a total of £27,200,000 provided by the international capital market between September 1922 and July 1928, only £11,000,000 had been raised by Hambros and its associates. The remainder had been procured from twelve other sources.[3] However, the Premier was accurate in so far as the government had depended heavily on the merchant bank for the provision of loan capital through public flotations. Notably, 90% of the funds raised in this manner prior to Venizelos return to office were issued through Hambros and its 'American associates'.[4]

The new Premier maintained that he was determined to diversify the origins of capital inflow and rid Greece of Hambros' tutelage.[5] It was for this reason, that within a few days of stepping into office he rushed into negotiations with J.W. Seligman. This American bank was now offering to furnish at once a £2,500,000 short term advance at the same interest rate as Hambros (i.e. 6.5%). However, it did not require from the government to provide the 1914 unissued bonds as security.[6] In addition, Seligman proposed to grant at the end of 1928 a $20,000,000 long-term loan for public works at a rate of interest and price of issue identical to the Stabilization Loan.[7]

Venizelos found appealing the idea of raising a general public works loan on the American market with a banker who had no connection with Hambros. He was so enthused that by July he convinced Seligman to increase the scope of the issue to $30,000,000. The latter agreed although it was uneasy about whether the American market could absorb such a large Greek flotation in one issue.[8] The amounts that had been floated up to then for the Greek government in the U.S.A. had been substantially smaller. Notably, $11,000,000 for the First Refugee Loan of 1924 raised by Speyer & Co., and $17,000,000 for the Stabilization Loan of 1928 floated by Speyer & Co. and the National City Bank.

The fact that Venizelos appeared to be on the verge of striking a deal with Seligman perturbed Hambros. The latter had not lost interest in Greek finance. Infact, shortly before the coalition government fell it declared itself willing to reopen negotiations any time, and to undertake part or all of the financing for infrastructure development. A matter which particularly annoyed Hambros was that it might loose the opportunity of financing the road scheme in which it already had a vested interest. It was obvious that if Venizelos raised a general purpose loan with Seligman the roads scheme would be included.[9]

The preference shown towards Seligman, brought Venizelos into direct confrontation with the strongest element of the Greek financial establishment- the National Bank of Greece. In particular, what the N.B.G. feared most, was the possibility that if the government made a deal with Seligman, it would be inclined to assign the reclamation of the Struma and Thessaly valleys to Monks- Ulen. For by an unfortunate coincidence, this firm had presented Seligman as its financial backer in the bid held in February 1928. The National Bank of Greece wanted the two schemes to be awarded to the other American contestant, namely The Foundation Co.[10] Indeed, the N.B.G. as a member of the Hellenic Construction Co., stood to make a direct profit in the event that these projects were awarded to this firm.

Under the circumstances, for the first time since 1925, the Bank of Athens, the country's second largest commercial bank was on center stage. Notably, J. Eliasco (the general manager of the Bank of Athens) -in his function as 'informal' representative of Seligman in Greece- was the key figure in the negotiations held between Venizelos and this American banker. The National Bank of Greece although it was excluded from the negotiations, kept a close eye on them and undertook to inform Hambros of any interesting development. Venizelos deliberately refrained from asking Hambros to make a new offer as he wanted to decrease Greece's dependence on the bank in particular and British capital in general.

In response, Hambros tried to deter the government from signing a contract with Seligman and encouraged it to make a deal with The National City Bank. The latter was at the moment on good terms with Hambros and had already agreed to raise the American tranche of a Hambros public works loan should it materialize. In mid July 1928 Hambros informed the government that if it continued discussions with Seligman it would be in danger of provoking the wrath of the 'powerful' National City Bank. Hambros maintained that the government could ill afford such a development as the N.C.B. happened to be the fiscal agent of the Greek government in the U.S.A.. It tried to touch a sensitive spot by reminding the Greeks that the National City Bank had worked hard in Congress circles campaigning in favour of the credits for the refugees. Hambros even insinuated that if the public works loan went to Seligman the National City Bank might retaliate by pressing Congress not to ratify the refugee credits. In addition, Hambros claimed that the image of the Greek government would suffer a blow in the eyes of the American market if it switched from a stronger (i.e. The National City Bank) to a 'weaker' group (i.e. Seligman). Last, Hambros maintained that Seligman would not be able to "make any offer of finance to the Greek government compatible with the standard of credit which they have been trying to maintain".[11]

Venizelos ignored Hambros warnings. If anything they were self defeating; they increased the Premier's desire to make an even larger deal with Seligman. Indeed, at the end of July, Venizelos decided that a $30,000,000 loan would be 'insufficient' and that it would be necessary for Seligman to present a firm offer for an issue of bonds totalling $75,000,000 (circa £15,500,000). This amount was considered sufficient to cover most of the road scheme and three of the land development projects; i.e. the reclamation of the Vardar, Struma, and Thessaly valleys. Seligman prepared an offer which was at once accepted by Venizelos.[12] However, this agreement was only by word of mouth for Venizelos refused to make any commitment in writing.[13] In the meanwhile, on August 13 1928, Charles Hambro wrote to Kaklamanos, the Greek Ambassador in Britain, stating that the bank wanted to make a new offer.[14] The government responded by requesting details. In early September 1928, representatives of Hambros, Speyer and the National City Bank visited Athens and made a joint offer to the government for a £15,000,0000 syndicated flotation. However, they left Athens empty-handed, although purportedly they offered terms which were as good as those of Seligman.[15] Unexpectedly, one month later Venizelos decided to split the $75,000,000 loan between Hambros and Seligman. Why the change of mind?

It has been suggested that Venizelos had in earnest wanted to raise a loan exclusively with Seligman, but that he was unable to do so for foreign policy considerations. Namely, it is argued that because in late September Venizelos made a rapprochement with Italy -by signing a bilateral Treaty of friendship- he wanted to placate Britain.[16] This argument is unconvincing. It is the case that at the time, Britain encouraged the conclusion of such bilateral agreements in the Eastern Mediterranean because they helped to maintain the balance of power.[17] In our opinion, this change was solely of an economic nature. In order to be more specific regarding the economic considerations behind Venizelos policy shift it is necessary, first, to explain in full the reasons why he was so anti-Hambros when he stepped into office. It is clear that the new Premier's verbal attack against Hambros reflected also his negative views about the N.B.G. which was Hambro's ally in Greece. Venizelos upon stepping into office declared war against the National Bank on the grounds that the compensation it received from the state, when it lost prematurely its privilege to print money, was excessive. Ironically, by antagonizing the N.B.G. on this issue, Venizelos found himself at odds with the League of Nations. Although the Premier had a strong case, the League construed this whole affair as a direct attack on stabilization as the compensation granted to the N.B.G. had been settled within the framework of the Geneva Protocol of September 1928. From the point of view of this dissertation, what is of special interest is that Venizelos apparently had become less hostile toward the N.B.G. on this subject by October 1928 -i.e., the point whereupon he decided to grant half of the financing of the public works schemes to Hambros.[18] This cannot be a coincidence. The material suggests that Venizelos' was pressurized by the Treasury and the League to accept conditions created by the stabilization plan. Greece's formal supervisors also considered that his handling of public work financing might undermine the League's stabilization plan for the creation of a central bank. Finlayson was particularly vocal in his criticism. He argued that Venizelos should have consulted the Bank of Greece regarding this subject. He also pointed out that Eliasco (the manager of the Bank of Athens) who was notorious for his "opposition to the Bank of Greece and the whole idea of stabilizing the drachma" should not have been allowed to participate in the negotiations with Seligman.[19] Thus, the flirtation with Seligman brought Venizelos into direct conflict with the central bank and Greece's formal supervisors. As a result he had no option other than to split the financing of the public work schemes.

To sum up, Venizelos' early dislike of Hambros must not be viewed only within the context of foreign affairs. Consideration should also be given to Venizelos' antithesis towards the N.B.G. It must be underlined at this point that the game played out between conflicting foreign business interests was no simple affair. Alliances were made inside Greece with internal financial interests. Thus, the animosity between Hambros and Seligman, was reflected at the domestic level in the antagonism between the N.B.G. and the Bank of Athens. It is possible to speak of two opposing groups (Hambros plus the N.B.G versus Seligman and the Bank of Athens) locked in warfare. To complicate things even further, foreign 'institutional' control, although it did not identify openly with foreign business interests, was in general lines more friendly towards Hambros. Seen in this light, Venizelos 'flirtation' with Seligman acquires a special significance and the question of why and how did Hambros reappear on the scene as 'victor' in October 1928 can no longer pose as an enigma.

References

Introductory Comments

1. Karamanlis, *op.cit., passim.* Also G.Daphnes, *op.cit., passim.* Also Markezinis, *op.cit. passim.*

2. *Ελεύθερον Βήμα*, November 14 1910. See also, I. Pepelasis Minoglou, (1988), *op.cit.*, pp.145-168.

3. Unfortunately we do not have available details concerning these proposals. M.F.A./H.A, 1922-1923/League of Nations/D2: File 76: Correspondence of the General Manager of the Associated British Manufacturers to Venizelos, January 7, 9, 1919. Also, Sakellaropoulos to the ministry of foreign affairs, April 27, 1923.

4. The first view is held by Karamanlis, the second by Markezinis.

Chapter 1

1. U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic matters: Document file note dated September 15, 1928.

2. Dunn refers to the notion of a closed relation which exists when a particular banking house conducts all of the financing of the government. See: Dunn, *op.cit.*, p.102.

3. Outside the Hambros group (i.e. Hambros Bank and Erlangers) in all 12 firms undertook to place loan capital privately or to raise it through public subscription. These were: Banco Commerciale Italiana, Bank of Athens, Credito Italiano, Credit Suisse, National Bank of Greece, National City Co., Skandinaviska Kreditaktioblaget, Societe Nationale de Credit a l' Industrie (Banque Nationale de Belgique), Speyer & Co., Stockholms Enskilda Bank, Svenska Tandisticksaktiebolaget, Ulen & Co.

4. These public subscription loans were the two League of Nations loans, for which Hambros issued 55% of the loan capital and its American associates 34%.

5. *G.P.D.*, Second Assembly, First Period, Vol.B, Session 73, Minutes of the discussion of February 13, 1929, p.579. Also U.S.A./NAT/MA5/S.D./M443/31/868.50: Document file note dated September 15 1928.

6. As guarantee it asked from the government to pledge the surplus value of the revenues under I.F.C. supervision. N.B.G./H.A., X Loans, A' Public Loans, File 142 Public Works loan: Drossopoulos to Hambro (undated, but most probably: late June or early July).

7. M.F.A./H.A.: File A/14, 1928-1929, Struma Works, Stephens to Charles Boot July 5, 1928. Also see: N.B.G./H.A., X Loans, A' Public Loans, File 141, Public Works loan: Hambros to National Bank July 7, 1928.

8. Seligman demanded in return for providing a larger sum "stiffer terms -i.e. it agreed to issue such an amount at "6 points below the price of the Stabilization Loan bonds ruling in the New York bourse during the last 20 days before the flotation of the loan". Also if the government wanted to postpone the loan for one year then: a) the interest rate of the advance would have to increase, and b) the unissued portion of the 1914 loan would have to be offered as security to Seligman. Source: N.B.G./H.A., X Loans, A' Public loans, File 141, Public Works loan: Drossopoulos to Hambros, July 20, 1928.

9. B.M./V.A., File 50, Hambro to Venizelos, August 13, 1928.

10. The coalition had decided on May 12 to allocate the Struma valley project to Monks- Ulen and the Thessaly project to The Foundation Co. However, this decision was not legally binding.

11. N.B.G./H.A., X Loans, A'Public loans, File 141, Public Works loan: Hambro to Kaklamanos, Hambro to Drossopoulos, July 20 1928.

12. There is no information as to the terms agreed upon regarding the rate of interest and the price of issue. Source: N.B.G./ H.A., X Loans, A' Public Loans, File 142, Public Works loan: part iv of memo prepared by Hambro for Speyer & Co. and the National City Bank on October 18 1928.

13. According to Stephens, a top official of W.Seligman Co. when in August 1928 his "firm asked if a short written memorandum to this effect would not be desirable" Venizelos "gave assurance through Mr. Eliasco that no memorandum was necessary". Source: B.M./V.A., File 322, Stephens to Venizelos, November 5, 1928.

14. B.M/V.A., File 50: C. Hambro to Kaklamanos, August 31 1928.

15. N.B.G./H.A., X Loans, A' Public Loans, File 142, Public Works loan: handwritten and undated memo titled: Public works loan, 1928, second period (new offer).

16. Karamanlis, *op.cit.*, p.57.

17. The Hellenic Italian Treaty of friendship was seen by Britain as a means towards securing a free passage to Suez and as a buffer to Soviet 'expansionism' in the area. For details on this point and on the Treaty or maybe accord, see: History of the Greek Nation, Vol.IE, pp.348-350.

18. For the fact that Venizelos by October 1928 had become less intransigent on the subject of the surplus values, see: FO371/12918/C3506, Finlayson to Niemeyer, October 3 1928. For a general discussion on Venizelos attack against the N.B.G. on the issue of the recompensation or as it was called the 'plus values, see: Venezis, *op.cit.*, pp.57-61.

19. B.G./T.A., Document 46/76: Minutes prepared by Finlayson on August 15 1928.

Chapter 2

The First Public Works Loan

2.1. The Loan

In mid October 1928 C. Hambro and R. Erlanger arrived in Athens and presented once again the offer they had made one month earlier to raise, jointly with the National City Bank and Speyers & Co a £15,000,000 bond loan. (Half of the loan capital to be issued in London by Hambros Bank and Erlangers, and half to be floated in New York by The National City Bank and Speyers & Co.). As mentioned above this time Venizelos did not dismiss the Hambros group proposal. Instead, he agreed to assign to the merchant bank and its associates the flotation of 50% of the long term loan capital necessary for his public works programme. The Premier refused to allow them to provide more than £7,500,000 on the grounds that in July 1928 he had promised W.Seligman & Co. that it would raise in full the loan capital required for infrastructure development.[1]

Charles Hambro was pleased with Venizelos' decision. But, in view of the fact that he had not persuaded the Prime Minister to allot to his group the full amount, he announced that he would float his share (i.e. the £7,500,000) exclusively in London together with Erlangers. Speyers and the National City Bank were treated in an offhand way by Charles Hambro. He notified them of his intention to put them out of the picture 15 days after he informed the government that no part of the Hambros tranche would be issued in the U.S.A. To save face, Hambro explained to Speyer and The National City Bank that he was forced to exclude them as he could not agree with their 'unreasonable' expectation that the price of issue in the U.S.A. be 10.5% points below that of the stabilization issue.[2] Whereupon Speyers and the N.C.B. approached Venizelos directly and asked to participate with Seligman in the New York issue.[3] Venizelos refused stating that Seligman has been originally promised the whole issue.[4]

It must be remarked at this point, that Seligman resented the fact that Hambros had managed to grab half of the loan capital, but, despite its anger, Seligman adjusted to the new status quo at once and agreed to share the 'pie' with its British competitor.[5] From October 1928 onwards, Charles Hambro was in full control and it was he who set the rules regarding the financing of the public work schemes. A good indication of this, is the fact that by the time he left for London on November 8 1928 he convinced the Premier to drop altogether the idea of a short term advance and instead to concentrate on the £15,000,000 long-term loan which would be floated in several tranches. The British banker offered to float a first tranche of £3,000,000 in December 1928 while Seligman would raise a second tranche in the spring of 1929.

Let it be reminded at this point that the idea of combined short term advance (to be granted immediately) and a long-term loan (to be given at a later date) had been first proposed by Hambros back in the early spring of 1928! As seen above, at that time the merchant bank had warned the government that if it resorted to the flotation of a long-term loan for public works before the spring of 1929 it would damage Greece's standing in the international capital market due to the issue of the Stabilization Loan.

How can this volte face by Hambros be explained? By late 1928, the Financial Committee of the League had warned that it would be against the granting of an advance because it did not want to see Greece's floating debt enlarged. In addition, Hambros felt pressed to issue part of the long-term loan before the Christmas of 1928 because it feared that the 'large' German loan that was planned for early 1929 would exhaust the market and preclude it from absorbing a Greek loan.[6] But, though Hambros did not openly admit it, two more factors were responsible for its eagerness to float a tranche at once. On the one hand, it feared that the government might once again change its mind. On the other, such a flotation would increase Hambros bargaining power vis a vis the government with regard to the P.A.P. railway company it had taken over with the Hellenic Trust. (See: Book I, Section III, Phase Three) This incident aptly portrays that C. Hambro being a typical merchant banker had as his priority to safeguard and enhance his position in Greece and not to protect 'stabilization'. The final details concerning the exact price of issue and the rate of interest of the tranche to be floated in December were settled after Charles Hambro departed from Athens. In the past, Erlangers was no more than a 'sleeping' partner and appeared nowhere in the correspondence, whereas the National Bank of Greece acted as an intermediary between Hambros and the Prime Minister. Characteristically, C. Hambro wrote to the N.B.G.:

"In everything to do with Greek Government or Municipal affairs we are associated with Erlangers, we [are] leading the business in every case, and they are not allowed to enter into any agreement with either of these parties without our consent... but with reference to Greek affairs on the London market, they have no position, except as coming along behind Hambros...".[7]

Within days of his arrival in London Charles Hambro made a firm offer of the terms under which the Bank would be willing to float the £3,000,000 public works bonds. As was the case with the Stabilization Loan of January 1928, the redemption period would be 40 years and the nominal rate of interest some 6%. However, he proposed to buy the bonds from the government at 83,5, and to sell them to the public at 89. The respective figures for the Stabilization Loan had been 85,5 and 91. (That is, the issue price demanded for this new flotation would be 2 points lower).[8] Previously Hambros had led the government to believe that the post-stabilization loans for the infrastructure projects would have terms equal to those of the Stabilization Loan. Indeed, this 'promise' had been misleading for it rested on two alternative but not mutually exclusive assumptions regarding the post-stabilization 'era' which could not be taken for granted. First, that a dramatic improvement in the state of Greek finances would materialize. Secondly, that there would be a rise in the average issue price of the loans floated in the international capital market. Without these two preconditions, it is obvious that any new bonds offered for flotation would have to be offered to the public at a lower price than the stabilization bonds. League Loans were in a 'class of their own'.

Neither of the two preconditions materialized and as a result, Venizelos realized that the issue price would be 'lower'. However, he had no intention of allowing Hambros to make a profit higher than what it had attained from the Stabilization Loan. For this reason he demanded that the spread be narrowed by 0.5% so that the government could sell the bonds at 84 and not 83.5%.[9] Hambros Bank complied with Venizelos' request. In the last analysis a 5% commission was by the standard of the day a rather good deal.[10] But, this was not the only modification to be made at the insistence of Venizelos. By the time the final draft of the contract was prepared in early December 1928, Hambros had to agree to increase the size of the first tranche from £3,000,000 to £4,000,000.[11] Hambros had also to accommodate Venizelos' last minute demand to augment the total capital to be raised for public works from £15,000,000 to £22,000,000, thereby including finance for the reclamation of the Thessaly valley.[12] With reference to this last point it must be underlined that Hambros in no way encouraged Venizelos to increase the 'target' figure set for public work financing.[13] Further, Venizelos asked that a small part of the proceeds of the loan be used for the support of the Agricultural Bank of Greece.[14] Hambros initially objected to this request.[15] But, it finally gave in because Drossopoulos, the governor of the N.B.G. insisted that otherwise the contract for the loan might not be ratified by the National Assembly as the question of the agricultural credits was vital for the government and Parliament.[16]

Probably, the most interesting feature concerning the preparatory discussions for this loan is that Hambro did not request I.F.C. supervision. Instead, he insisted that the repayment of the loan should be placed under the supervision of the Bank of Greece. It is notable, that no such precedents existed. Indeed, it was the first time that an underwriter of Greek loans encouraged the government to enter the world capital market without the backing of the I.F.C. Interestingly, Venizelos was not in favour of such a shift in policy. However, he was swayed into playing along with Hambro's wish for the latter insisted that it was a most important step forward in the development of Greece in general and Greek government credit in particular.[17]

Actually, the real motivation for Hambro's policy shift was not to improve the creditworthiness of the Greek government. Instead, it aimed to establish a useful precedent, in order to make it easier to raise in the future loan capital in the City for Greek industry, the P.A.P. railways, and municipal infrastructure works. Hambro was well aware that such bonds stood no chance of being placed under I.F.C. supervision, as they would be non-governmental bonds. Thus, it presumed that if the First Public Works Loan did not enjoy the prerogative of being supervised by the I.F.C., then later when non government bonds when floated they would not appear to the British public as inferior 'paper'.[18] One final comment regarding the mode of repayment of the loan. The state revenues pledged as security for the loan were as usual more than ample. At about £5,000,000 they were 25% over the nominal value of the loan and 20 times over the size of its annual service.[19]

Hambros was eager and pressed for the flotation to take place before the 15th of December 1928. On December 10 1928, Law 3686 was passed, authorizing the government to conclude the £4,000,000 public works loan and to raise over a period of five years a total of £22,000,000 for infrastructure development.[20] The next day, on December the 11th, the loan contract was signed.[21] No protracted debate was held in Parliament. In part, the lack of reaction was associated with the balance struck between American and British financial interests. Furthermore, the National Assembly was preoccupied with other sensitive issues, such as the need to modify the body of Parliamentary Regulations and the mode of election of the Senators.[22] On December 12th the President of the Republic ratified the contract.[23]

On the 11th of December Hambros had opened for public subscription. But there was little interest. As a result on the 13th the National Bank of Greece received the following telegram:

"Public have not subscribed for loan which will consequently be large(ly) left with underwriters [stop] can you get minister also Bank Greece also to authorize to buy after issue for their account up to £500,000.-in order to prevent bonds going to appreciable discount which will damage credit [stop]"[24]

The Bank of Greece placed at Hambro's disposal £300,000 for the above purpose.[25] C. Hambros was optimistic and on December 14, in a letter to Drossopoulos noted that if the government assisted in "maintaining the price of the loan over the New Year until such time as we can place it in firm hands" the bonds of the loan would do well.[26] Although the Bank of Greece and the N.B.G. bought a large amount of bonds, the loan did not do well. It started off standing at a 2.5% discount and by March it had reached 3 3/8. In the end, 75% of the bonds remained with the underwriters.[27] It must be remarked that this flotation adversely affected the poststabilization inflow of foreign capital.

2.2. Why the Lack of Interest in the Loan on the Part of the Public?

The disastrous flotation of the loan inevitably provoked a deterioration in the already fragile relationship between the Prime Minister and Hambros. Each side accused the other for the failure of the loan and neither wanted to carry responsibility for the outcome. Venizelos on his part regretted he had given in to Hambros demand to have the loan floated immediately.[28] He claimed, both in private conversations as well as in the National Assembly, that Hambros was responsible for the 'failure' of the loan, because it had been in too great a hurry and had issued it at an inopportune moment. In addition, the loan had been raised without the supervision of the I.F.C..[29] The second point of the Greek Premier was rather naive and presumed that the I.F.C. would have accepted the loan had it been requested to do so. However, although Hambros Bank had a large stake in the Societe de Regie -which collected the revenues of the state monopolies under I.F.C. control- it is unlikely that the Commission would have undertaken to supervise a non League loan.

Hambros rejected the accusation that they were responsible for the 'depreciation' of the loan. They informed Venizelos that the loan failed not because of the absence of I.F.C. supervision, but for the reason that the government had among other things insisted that it be for £4,000,000, whereas Hambros wanted to issue only £3,000,000. In addition, by cutting the spread of the loan by 0.5% it supposedly became financially impossible for Hambros Bank to engage in extensive promotion. Also, the government demanded that the issue price be 89, while Hambros had advised 88; Moreover, the legal decree issued for the loan (Law 3686) by stipulating that the total foreign borrowing requirements for the public works programme would amount to £22,000,000, harmed Greek credit as it let the international markets know there would be a continuous stream of new issues.[30]

Indeed, Hambros had been faced with a fait accompli in that the government had not given prior notification that it planned to include a clause in the decree for the loan pertaining to the total borrowing requirements of the state.[31] However, the other arguments were no more than a poor excuse. From the available evidence it is clear that Hambros had made miscalculations and it had not objected to the various alterations 'forced upon it' by the government. For instance, though it is true that Hambros initially suggested that the loan amount to only £3,000,000, mid way during the negotiations it actually suggested that the loan be increased to £3,500,000 and later accepted to raise it to £4,000,000.

In our opinion, a more balanced view of the failure of the flotation was provided by Finlayson. Although he had close connections with Hambros, Finalyson noted that the merchant bank had not spent enough time prior to the loan to prepare the terrain for the flotation. An all-important omission as it was the first public issue after the drachma stabilization. He also thought the timing of the flotation was poor. The public felt some anxiety as King George was taken ill and the market was nervous on account of the uncertainty of the German reparation settlement. In addition, the foreign advisor at the Bank of Greece correctly underscored the fact that the Greek government had just made two moves which shocked the market and foreign investors. First, Venizelos announced that the interest rate on the exchangeable bonds would be lowered from 8% to 6%.[32] (These were the only bonds actually issued in Greece quoted on the London stock exchange. This move discouraged subscribers). Second, ten days before the flotation of the loan the minister of communications rekindled the "interminable" conflict between the government and The Power & Traction Co.[33] Thereby, he "...definitely antagonized the biggest group of investors in this country, and caused them to retire from any subscription in the loan which they otherwise would have undertaken."[34]

Finlayson's criticism of the loan, 'objective' as it may have been, largely reflected his disapproval of the fact that the Bank of Greece had not been consulted on this matter. One further adverse consequence of the loan was that once again an opportunity was provided for Greece's financial supervisors to make negative comments on the government's foreign borrowing prospects. According to an official of the Bank of England "... although this and the other Greek loans appear to be very well secured, we fear it is an undoubted fact that they are not popular with the public...".[35] Moreover, Niemeyer noted that "I do not think there is a doubt that in the immediate future they [i.e. the bonds] are likely to go worse than better".[36]

Seen from another and more narrow angle, this loan testifies to the improved status of Greece. Compared to the previous infrastructure loans and the other loans raised contemporaneously on the key international bourses the proposed real interest rate and price of issue were not so onerous. (See Table 1a & 1b) But, perhaps this also explains the failure of the flotation; together of course with the poor handling of the issue Hambros and the government's inherent antagonism towards foreign and in particular British interests.

Table 1a

Comparison of Interest Rates of Infrastructure Loans

Title	(A) Real Interest Rate of Loan	(B) Contemporaneous Discount Rate[1]	Difference between A&B
Athens Water Loan	9.4%	3.99%	5.5
Belgian Railway Loan	8.7%	3.99%	4.7
1st Public Works Loan	7.1%	4.5 %	2.6
Swedish School Loan	7.1%	3.2 %	3.9
2nd Public Works Loan	7.1%	2.5 %	4.6

Table 1b

Comparison of Prices of Issue of Infrastructure Loans

Title	(A) Issue Price of Loan[2]	(B) Contemporaneous Aver. Issue Price[3]	Difference between A&B
Athens Water Loan	85	92.2	7.2
Belgian Railway Loan	92	92.2	0.2
1st Public Works Loan	89	94.8	5.8
Swedish School Loan	84	92.1	8.1
2nd Public Works Loan	87	95.2	8.2

[1]By contemporaneous discount rate we mean the average discount rate in London and New York at the time the loan was floated. For 1931 only the London rate is taken into consideration.
[2]For the loans that were raised through public flotation we have stated the price at which they were sold to the public.
[3]By contemporaneous issue price we mean the average issue price of the loans floated at the time in New York and London. We have not included British government or Commonwealth loans. The figure for 1931 refers only to the loans floated in London.

Sources: The data for Tables 1a & 1b have been compiled from: A. Angelopoulos, "The fiscal consequences of Greece's foreign borrowing", in the *Επιθεώρησις Κοινωνικής και Δημόσιας Οικονομικής*, (Athens, 1934), pp.174,176. Also from, Economic Yearbook for 1932, (Athens, 1933), pp.512-528. Also, Hambros Bank, Market Reports and Price lists throughout 1931.

To recapitulate. The First Public Works Loan was unique in a number of ways. It was the only Greek government loan to be exclusively issued by Hambros. Also, and contrarily to what had been the case in the past, this loan had a multiple purpose. Its proceeds were spent on three different projects and contributed towards the setting up of the Agricultural Bank of Greece. (For the yield of this issue and how it was actually spent see Book II, Section I, Chapter 2, Table 6) In addition, this was the first infrastructure loan to be raised through 'indirect' public subscription. In the last analysis, the foremost feature of the First Public Works Loan was the negative impact it had on Greece's creditworthiness.

References

1. U.S.A./NAT/MA5/S.D./M443/32/868.50 Economic Matters: document file note dated December 10, 1928.

2. Hambros was afraid in this instance that he would risk his position in Greece if he insisted on a combined offer with his American Associates. Source: same as reference 1 above.

3. N.B.G./H.A., X Loans, A' Public Loans, File 142, Public Works loan: memorandum prepared by Hambros on financing of public works, October 18, 1928.

4. C.Hambro upon being informed of the lack of success the N.C.B. and Speyers had with Venizelos, wired on November 14 to Drossopoulos: "...We gain strongly urge him [i.e. Venizelos] to give them [i.e. The National City Bank and Speyers & Co.] first refusal of American tranche on equal terms with I. & W. Seligman & Co." The answer given by Venizelos to this request was negative. N.B.G./H.A., X Loans, A' Public Loans, File 142, Public Works loan: Venizelos to Drossopoulos, and Drossopoulos to Hambro November 17, 1928; Drossopoulos to Hambros Bank, November 19, 1928.

5. Stephens, a top official of Seligman purported that: "...in late October, when Hambros Bank was permitted to submit an offer I was advised that Your Excellency [i.e. Venizelos] had given instructions to compare it with ours and if better submit it to my firm to meet and if not to close immediately with Seligman.... The Hambro offer has never been submitted to me; certain of its terms were read aloud to me on two different occasions; these terms changed in the interval showing that Hambro had been allowed to improve upon the proposition first submitted and none of these terms were as favourable to the State as ours. Up to the very eve of the announcement made to me through Mr. Eliasco, the Minister of Finance gave me to understand that with the final concessions requested of and granted by my firm our offer was better than Hambro's". Unfortunately we cannot check whether this last comment regarding Hambros terms was accurate and for this reason we do not include it in the text. Source: B.M./V.A., File 332, Stephens to Venizelos, November 5, 1928.

6. Hambros was also eager to avoid the Christmas holiday blues. See: U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic matters: Skinner to Secretary of State, February 14, 1929. Also, N.B.G./H.A., X Loans, A' Public Loans, File 142, J.H. Hambro to Drossopoulos, November 22, 1928. For Venizelos' initial resistance to the idea of a tranche see below reference 29.

7. N.G.B./H.A., XXII Banks, Foreign Banks, File 68, N.B.G. and correspondence with Hambros: C.Hambro to Drossopoulos, June 7 1928.

8. By issue price is meant the rate at which it intended to buy the bonds from the government. By spread we mean the commission charged by the underwriter plus stamp duty. Also note that the earliest redemption period was also 10 years as was the case with the Stabilization Loan. For firm offer which was ready by November 13 1928. Source: N.B.G./H.A., X Loans, A' Public Loans, File 142, Public Works loan: Hambro to Venizelos (via N.B.G.), November 13, 1928. The draft contract prepared by Hambros was sent to Drossopoulos on November 22. Also, same file: Hambro to Drossopoulos, November 22 1928, and Drossopoulos to Hambros,November 29, 1928.

9. Venizelos asked that the government be allowed to participate in half of the profit to be made if the loan was eventually issued at a price over 89. Drossopoulos on the 19th of November communicated to Hambros Bank the two modifications demanded by Venizelos, and suggested that it accept them at once without further negotiations. Source: N.B.G./H.A., X Loans, A' Public Loans, File 142,Public works loan: Venizelos to Drossopoulos, November 17, 1928. Also, same file: Drossopoulos to Hambros Bank, November 19, 1928; and Drossopoulos to Hambros Bank November 20, 1928.

10. For the twenties it was estimated that in the American capital market the average spread was 4.13% for European issues. Source: Madden, et al, *op.cit.*, pp.226-229.

11. At first Hambros stated on its own accord, in the third week of November that it would be willing to increase the tranche to £3,500,000 if the government in return agreed to supply it with £300,000 prior to the flotation of the loan. Hambros wanted this capital in order to support the price of Greek bonds on the bourse and thus make it feasible for the flotation to take place at 89%. The government agreed to this point. However, on December 3 Venizelos asked for the amount to increase to £4,000,000. Apparently, Hambros accepted this request without raising an objection on December 8 1928. Source: N.B.G./H.A., X Loans, A' Public Loans, File 142, Public Works loan: Hambros Bank to Drossopoulos, November 19 1928, and Hambros to N.B.G., December 8, 1928.

12. Supposedly however the Thessaly works had already been included when he had asked for £15,000,000 in the first place. Also, in between on November 24 Venizelos had asked that the total amount for public works be raised from £15,000,000 to £20,000,000. Source: N.B.G./H.A., X Loans, A' Public Loans, File 142, Public works loan: Drossopoulos to Hambros Bank, November 24, 1928. On December 3 he asked that the amount be raised to £22.000.000. Source:N.B.G./H.A., X Loans, A' Public Loans 1928, File 142, Public Works loan: Drossopoulos to Hambros, December 3, 1928.

13. When Venizelos in November 1928, first asked for permission to surpass the £22,000,000 'target' figure Hambros commented that: the question of increasing the size of the public works loans was a matter which, was in the exclusive discretion of the government, definitely did not concern the Bankers, and would "be eventually decided by the state of the revenues available at the time when further issues are contemplated". Source: N.B.G./H.A., X Loans, A'Public Loans, File 142, Public works loan: Hambros Bank to N.B.G., November 26, 1928.

14. Venizelos also expected the English and Greek texts of the contract to be of equal importance. But this request was not accepted by Hambros. For Venizelos proposed modifications same source as reference 12 above.

15. N.B.G./H.A., X Loans, A' Public Loans, File 142, Public works loan: Hambros to N.B.G., December 4, 1928.

16. Drossopoulos also underlined the fact that since the "...agricultural credits will [i.e.would] continue operating through National Bank there is [i.e. would be] a full guarantee that object aimed will be effected with full security and retribution of capital thus diverted". Source: N.B.G/H.A., X Loans, A' Public Loans, File 142, Public works loan: Drossopoulos to Hambros Bank, December 5, 1928; Hambros to N.B.G., December 6, 1928.

17. B.M./V.A., File 332, C.Hambro to Venizelos November 1, 1928. From this letter it construes that as late as November 1 Venizelos had not yet been convinced by Hambro's argument. That Venizelos in principle was all in favour of using the I.F.C. as a supervisor of Greek government loans is corroborated also by the fact that on November 3, 1928 Finlayson informed Niemeyer that "Venizelos asked that new exchangeable bonds be placed under I.F.C.supervision". Therefore, it construes that if Venizelos wanted to introduce the novelty of establishing I.F.C. supervision over internal loans,he all the more would not be against supervision over foreign loans. Source: FO371/ 12918/C56271, Finlayson to Niemeyer, November 3, 1928.

18. USA/NAT/MA5/S.D./M443/31/ 868.50, Economic matters: Skinner to Secretary of State, February 14, 1929. Also let it be noted that when Venizelos in the early autumn of 1928 had asked the I.F.C. to supervise the new series of the exchangeable bonds the British Treasury had declared that the I.F.C. should not undertake further responsibility for the service of any new external or internal loans. The 'excuse' being that after stabilization Greece was in a position to secure on her own good terms for her loans. Source: FO371/12919/C9013 Roussin to Niemeyer November 3 1928. Also, FO371/13651/C2020, Minutes of December 25 1928.

19. N.B.G./H.A., X Loans, A' Public loans, File 142, Public Works loan: Prospectus of the First Public Works Loan.

20. According to this new law (which had been presented to the National Assembly in a draft form on December 3 1928), the government would raise over a five year period £2,000,000 for the refugees. Technically in the event that the government desired to raise more than £22,000,000 for the public works program and £2,000,000 for the settlement of the refugees, it would be obliged to offer more state revenues as security. Source: N.B.G./H.A., X Loans, Public Loans, File 142, Public works loan: Translation of the Project Law for the contracting of [a] loan for the drainage works, roadworks and the reinforcement of agricultural credit.

21. It was signed by the minister of Finance and the governor of the Bank of Greece. The governor of the N.B.G. also signed on behalf of Hambros and Erlangers.

22. *Εθνικός Κήρυκας*, *op.cit.*, Vol. 9, Session of December 10 1928, pp.366-378,

23. This ratification took place on the basis of Law 3686 which had been voted by parliament. See: *G.G.*, First issue, Folio 262, December 12 1928.

24. N.B.G./H.A., X Loans, A' Public Loans, File 142, Public Works loan: Hambros to N.B.G., December 13, 1928.

25. N.B.G./H.A., X Loans, Public Loans, File 142, Public Works loan: N.B.G. to Hambros, December 20, 1928.

26. N.B.G./H.A., X Loans, Public Loans, File 142, Public Works loan: Hambros to Drossopoulos, December 14 1928.

27. We do not know how much actually the N.B.G. or other Greek institutions spent on buying bonds of this loan. However, on December 6, Drossopoulos declared to Hambros Bank that it would like to be included in the list of underwriters for an amount totalling £200,000. He also informed Hambros that the Banque d' Orient was interested in underwriting for £300,000. Source: N.B.G./H.A., X Loans, A' Public Loans, File 142, Public Works loan: N.B.G. to Hambros Bank, December 6, 1928. In the end, all we know for sure is that the National Bank of Greece subscribed for at least £40,000. Source: N.B.G./H.A., X Loans, A' Public Loans, File 142, Public Works loan: Hambros Bank to N.B.G, December 11, 1928.

28. FO371/13651/C63204, Finlayson to Niemeyer, January 24 1929.

29. The Greek Prime Minister maintained that he should have stood up to Hambros demand that the loan be floated at once. Indeed, when Venizelos first opened discussions with Hambros in October 1928, he maintained that the ideal solution would be for Hambros to provide jointly with Seligman a £3,000,000 advance. Source: *G.P.D.*, Second Assembly, First Session, Vol.B., Minutes of Session 73, February 12 1929, p.579.

30. Hambros asked Drossopoulos to point out to Venizelos that "it is not always the best policy of a Government to make the last penny out of their banking friends abroad, and it is sometimes wiser and less expensive to let the public and the bankers make a certain amount of profit. This I know you understand from your own point of view, but I think it is sometimes a little bit forgotten in Government circles. The facilities under which the Loan was underwritten show that if it had been issued at the price at which it was given to the underwriters, i.e. 87.5%, it would have been a success". Source: N.B.G./H.A., XXII, Banks, Foreign Banks, File 68, N.B.G and correspondence with Hambros: C. Hambro to Drossopoulos, December 14, 1928.

31. Drossopoulos wrote to Hambros about the intention to increase the target sum to £22,000,000 the same day the draft law was presented to the National Assembly. N.B.G/H.A., X Loans, Public loans, File 142, Public Works loan: Drossopoulos to Hambros, December 3, 1928.

32. For the criticism voiced in Greece against this measure, see: *Εθνικός Κήρυκας*, Vol.9, Session of November 16 1928, pp.252-259.

33. FO371/ 13651/C64751, Letter of Finlayson to Niemeyer, January 24, 1929. Also for the reaction against Power & Traction in the National Assembly, see: *Εθνικός Κήρυκας*, Vol.9, Session of December 7, 1928, pp.344-349.

34. N.B.G./H.A., XXII, Banks, Foreign Banks, File 68, N.B.G. and correspondence with Hambros: C.Hambro to Drossopoulos, December 14, 1928.

35. B.E./C.B.P 323, vol 1: Mullens to Deputy Chief Cashier, February 8, 1929.

36. B.E./C.B.P. 323, vol 1: Niemeyer to Finlayson, February 9, 1929.

Chapter 3

The Interval Between the Two Public Work Loans

3.1. The Seligman Loan that Never Was

The government reopened negotiations with Seligman in December 1928.[1] Although the £3,360,000 net product of the Hambro loan would be sufficient to carry the needs of the infrastructure plan for one whole year, Venizelos was in a hurry to sign an agreement with the house because he wanted to placate Seligman (cum the Bank of Athens), and to avoid creating the impression both in and outside Greece that his government was under strict British tutelage. A contract was signed on January 25 1929 with J.W.Seligman for the £11,000,000 that had been allotted to it. These being difficult times for foreign issues in New York, it was agreed that the bonds would be offered to the public at 6 points below the prevailing market price of the Stabilization Loan in the U.S.[2] A first tranche of $20-30,000,000 (approximately £4-6,000,000 was to be floated in 18 months.[3] The loan contract was ratified by the National Assembly on March 1 1929.[4] The aforementioned details are however of strictly academic interest as this agreement was never actually effected. Seligman cancelled the loan contract in the early spring of 1929 because the I.F.C. refused to supervise the loan. (As had been the case with the Athens water loan in 1925, the Commission was presented by the government with a request to undertake supervision after the contract had been signed and ratified!) The I.F.C. declared that it was against assuming new responsibilities in Greece and that in the future it would accept no new loans (regardless of nationality) in order to safeguard the smooth repayment of the loans already under its control.[5] However, it must be noted that this decision of the I.F.C. was dictated by the British Treasury which was anxious to hold Greece as a financial preserve of Britain and block the penetration of American capital.[6] Interestingly, this stance of the Treasury came into conflict with the proposals made at the time, by certain members of the British cabinet for the establishment of free trade and the eradication of commercial and financial barriers in Europe.

The Venizelos government was disappointed with the stance of the I.F.C. and it informed Skinner, the American minister in Athens, that it wanted the U.S.A. to put pressure on the British to drop their selfish attitude.[7] In February 1929, Skinner duly suggested to the State Department and the U.S. Treasury that an American delegate be appointed "to sit upon the Commission either with powers concurrent with those of the other delegates, or with authority only to concern himself with American interests".[8] But, the answer of the Department of State was that the American government did not have a right to meddle into the private affairs of the I.F.C. The Treasury in concurrence stated that: "In so far as this Department is concerned there does not appear at the time to be any need for the appointment to the Commission of a representative of the U.S."[9] Thus, in the end, the U.S.A. government took no action and the I.F.C. did not alter its decision. The Seligman loan agreement of January 1929 was the last attempt made by American capital to float independently of Hambros bonds for the Greek government. In a sense it may be argued that Hambros' 'failure' with the First Public Works Loan scared off American capital from Greece. However, to be more precise and accurate we must note that ex post, given the October 1929 Wall Street Crash -even if Seligman had raised the first tranche of its allotted share- it is not likely that it would have carried out its obligation to supply the other tranches -i.e. the full amount it had promised.

3.2. The Advances

By May 1930, as a result of the disappointment it suffered with the flotation of the First Public Works Loan and the poor state of the international capital market, Hambros had shifted its orientation away from foreign flotations. Thus, although it had no desire to loose its dominance over Greek foreign borrowing, its vociferous appetite for Greek loans was curbed. Hambros' altered perception became manifest in two ways. First, in the hope that the situation might improve, the bank favoured the granting of short term advances. Second, it was no longer willing to lend on its own account large amounts to the government. Thus, when the government approached Hambros in April 1930 with the request to issue immediately a second tranche of £8,000,000, the bank's response was that it could not undertake a new Greek flotation for twelve months. Instead, it made the proposal to provide short term funding together with its American associates, and the National Bank of Greece. The government accepted this proposition and three annual advances of a total value of £3,940,000 were granted. Two of them were raised in May 1930. One advance was given by Hambros and it amounted to £1,500,000; another roughly equal in size was provided by Speyers and the New York City Bank.[10] (For how this advance was employed see Appendix 6) Shortly before the first two advances were furnished the National Assembly passed Law 4571 which effectively cancelled law 3686. Thus, the amount to be floated for infrastructure development was lowered from £22,000,000 to £14,000,000. Hambros had voiced a string of complaints against Law 3686. Indeed, the timing and provisions of Law 4571, indicate that the merchant bank demanded the change as a prerequisite for the granting of the two advances.[11]

The third advance was supplied by the National Bank of Greece during the months of December 1930 and January 1931, and it amounted to £900,000.[12] (Again see Appendix 6 for how it was spent). The provision of these advances, the fact that the third was totally furnished by a Greek bank, and the cancellation of the Seligman loan contract in the spring of 1929 attest to the unsettled state of the world capital markets. The government was once again effectively 'excluded' from the international financial centers -i.e. the City and New York. It is by no coincidence, that in 1930 Greece turned once again to the 'peripheral' market of Sweden for a small private loan- just as it did during 1926 when the British and U.S.A. war debt embargoes were in effect.

3.3. The Swedish School Loan

In July 1930, the government signed with Krueger & Toll a loan contract for £1,000,000.[13] It was raised for a single and specific project - the construction of a nationwide network of schools.[14] Furthermore, it was privately placed.[15] Thus, the government did not live up to Venizelos' initial expectation that from 1928 onwards infrastructure development would be financed **solely** through **tranches of general purpose public works loans** raised via indirect **public flotations**.

The Swedish loan was reminiscent of the method of financing of infrastructure works prior to stabilization. But, it had some differences. First, that Krueger & Toll, unlike Ulen & Co. and the Societe Commerciale de Belgique, had no involvement regarding the construction of the project. Krueger, the son of a rich Swedish matchmaker was not interested in undertaking construction projects, but in providing loans to foreign governments in return for securing match monopolies.

Greece had already granted its match monopoly in 1926 to a Swedish firm related to Krueger.[16] Another difference was that no one specific contractor was given the assignment. Also it was clear from the start that foreign capital would finance only part of the 'scheme'. Apparently this loan was put to good use and it covered approximately 1/6 of the cost of the 3,167 state schools that were built by Greek engineering firms during Venizelos' term in office.[17]

The price of issue (84), and the nominal rate of interest (6%), of this loan were identical with those of the First Public Works Loan. Infact, with a real rate of interest of 7.1% it was the most 'advantageous' of the infrastructure loans to be issued through 'private' channels. Compared to the other two infrastructure loans of this category, it had a lower real rate of interest and a smaller spread over the contemporaneous discount rate in Britain and New York. (See: Book II, Section III, Chapter 2).

Though there is no direct evidence, it appears that Greece's supervisors were not satisfied with this Swedish loan. They continued to press on the government the need for moderation regarding its foreign borrowing.[18] Internal critism of the loan was vocal. In the last week of June an animated debate took place in the National Assembly between Kafandaris (the minister of finance under the coalition) and Venizelos. The position of Kafandaris was that the Greek government should have depended exclusively on the budget surpluses and not raised foreign loan capital in order to finance the school buildings project. Such arguments of course, stood on thin air. For these surpluses were more fictional than real. Venizelos however, remained adamant in his conviction that the aim to attract foreign capital was entirely praise worthy provided that the loans were for productive purposes and not to cover budget deficits.

The banking establishment also was critical of the loan. The National Bank of Greece opposed the Swedish loan out of spite because the government had rejected its offer to finance this project on its own. Reportedly, the government did not assign the financing of this scheme to the N.B.G for it was not willing to award the construction of the new schools to those technical firms that were under the protection of this bank. Interestingly, Diomedes in June 1930 argued in public that internal loans should as a rule be preferred as they did not involve large binding obligations on the state nor an export of wealth.[19] (Indeed, domestic borrowing might have put less long term pressure on the balance of payments and the stability of the drachma. It is not clear why the Bank of Greece made this statement in favour of the conclusion of internal loans for public works at this stage. Was it in order to assist the autonomous expansion of the banking establishment in the realm of infrastructure development or was the Bank of Greece slowly becoming afraid that the Greek state was overborrowing? It is not possible to determine which was the case. But, if the second factor was paramount it can be argued that the central bank was beginning to espouse the view of the League of Nations that Greece had embarked on a careless foreign borrowing policy.

References

1. Reportedly the Bank of Athens was to participate in this loan. But the exact allotment it was to be given is not known. A convention was to be signed for this purpose. But, it was not publicized. We know of its existence from a reference in the Banque D' Athenes, *Bulletin Economique et Financier*, Number 78, February 1929.

2. The spread of the loan would be 5 points- though theoretically U.S.A. issues were more expensive. By spread meaning the difference between the price of purchase and the price at which the bonds would be offered to the public. As was the case with the agreement made with Hambros, it was specified that if the spread was larger than 5 units the difference would be divided equally between the government and Seligman.

3. This first tranche was to have a 6% nominal rate of interest. Provision was also made for the granting of a $7,500,000 advance shortly after the ratification of the contract. For the advance the bankers commission charged would amount to 1%. The interest rate would be no less than 5.5%, but also 1% above the FRB discount rates- this was the formula used by Hambros for its advances as well. After one year the interest charged would be 1.5% higher.

4. See Law 4025 of March 1, 1929 in the: *G.G.*, First issue, Folio 133, April 2, 1929.

5. The I.F.C. said it wanted to wind itself as soon as possible, but this statement cannot be taken at face value. Source: U.S.A./NAT./MA5/S.D./M443/32/868.50 Economic matters: Seligman to Shaw February 16, 1929; Skinner to the Secretary of State, March 29, 1929.

6. It was by no coincidence that the Treasury was supported by Finlayson who wrote a long memorandum for the Greek government in which in a biased manner he exposed why the Seligman deal would be bad for Greek credit. Source: B.M./V.A., File 66: document titled: 'Comments on the Seligman Contract' written by H.C. Finlayson, February 9 1929. For the fact that the governments of the other two members of the I.F.C. (i.e France and Italy) declared that their decision not to allow the Commission to supervise the loan was based entirely upon the English refusal, see: U.S.A./NAT./MA5/S.D./M443/31/ 868.51 Economic Matters: Skinner to the Secretary of State, November 1, 1929. Also, U.S.A./NAT./MA5/S.D./M443/32/ 868.50 Economic Matters: Memo of Shaw of a conversation held with the Greek minister on March 16, 1929; Skinner to the Secretary of State, March 19, 1929; and Fletcher to the Secretary of State, March 23, 1929.

7. For the fact that the Greek government believed that only if the U.S.A. government intervened the British would drop their selfish attitude, see: U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: Skinner to the Secretary of State November 1, 1929.

8. U.S.A./NAT/MA5/S.D./M443/31/868.51 Economic Matters: Skinner to Secretary of State, February 7, 8, 1929. (The quotation is taken from the second document).

9. U.S.A./NAT/MA5/S.D./M443/32/868.50 Economic Matters: Memo prepared by the division of Near Eastern Affairs, on the subject of the Seligman loan, May 2, 1929.

10. The Hambros advance was granted on May 3, 1930, and the American on May 6 1930. The latter amounted to $7,500,000 (i.e. the equivalent to £1,540,000). It was agreed that both advances would be repaid from the proceeds of the second tranche of the public works loan. The English group gave the advance at an interest rate of 5 3/4%, whereas the American group charged 5 1/2% and an issue price of 99.73%. Source: FO371/14387 C5709, July 15 1930, Roussin to Henders, July 4 1930.

11. For the pressure Hambros put on the government to pass this new law in order to limit the latter's foreign borrowing capacity, see: M.F.A./H.A., File A/14 1931, Kaklamanos to Minister of Finance, March 2 1931. This new law specified that the additional tranches could not be burdened with issuing costs surpassing the amount of 5%. Also with this law the right of the government to issue an additional £2,000,000 for the refugees was abrogated. For Law 4571, see: *G.G.*, First issue, Folio 124, April 26, 1930.

12. £600,000 was given on December 30, 1930, and £300,000 was given on January 1931. However, simultaneously with the Second Public Works Loan, it concluded a new advance for $7,500,000 from the New York City Bank. For the details pertaining to the new advance, see: N.B.G./H.A., X Loans, A' Public Loans, File 143, Second Public Works Loan: Bank of Greece to Harcourt Ross, April 2, 1931.

13. The proceeds of the loan were granted in August of the same year. FO371/14387/C5709. I.F.C. to Henderson, July 4, 1930.

14. The provider of the loan undertook not to put the bonds into circulation on the market, but it did retain the right of transferring them to a bank after 2 years. Source: FO 371/14387 C50709, Minutes of July 20 1930.

15. This loan was guaranteed against the school fee revenues, and the schools to be built. The ownership of the schools would remain into the hands of the government upon the redemption of the loan. However, FO 371/14387 C5709, I.F.C. to Henderson, July 4, 1930 notes that the loan was guaranteed against the surplus I.F.C. revenues.

16. For similar loans granted to Austria and Hungary, see: Berend and Ranki, *op.cit.*, pp.219, 225.

17. In large part this school building program was financed from the funds of the local government. Daphnes, Vol.2, *op.cit.*, p.84. For Venizelos' policy of increasing the number of primary schools and creating technical schools, see: B.Jelavich, History of the Balkans, Twentieth Century, (Cambridge, 1983), Vol.2., p.175.

18. B.M./V.A., File 332, Niemeyer to Venizelos, September 6 1928.

19. Also reportedly the government declared that it would use the N.B.G offer for a loan with regard to the construction of sewages. I.e. in this instance it appears that the government was willing to make use of the technical firms with which the N.B.G. was associated. Source: *Πλούτος*, June 26 1930. Also note that this newspaper supported the N.B.G offer. For the domestic opposition to the loan, also see: FO371/14387/C50801, Minutes of July 29 1930.

Chapter 4

A New Project Begins: The Drainage of the Struma Valley

Chronological Summary

February 11, 1928:	Tender announced for the drainage of the Struma and Thessaly valleys.
February 15, 1928:	The tender is extended so as to include the irrigation of the Struma and Thessaly valleys.
June 1928:	Coalition cabinet announces that the reclamation of the Struma valley would be assigned to the American firm Monks-Ulen.
October 20, 1928:	Contract signed by Venizelos with Monks Ulen for the drainage of the Struma valley.
November 13, 1928:	Contract is submitted to the National Assembly for approval.
December 8, 1928:	Contract is ratified.
February 1929:	The works begin.
1937:	The state takes over the completion of the works.

4.1. The Problem Posed

The plain of Struma lies in Eastern Macedonia. It is transversed by the Struma river which originates near Sofia in Bulgaria and enters Greece through the gorge of Ruppel. This river carried a substantial amount of silt and for much of the year flooded large areas of the Struma valley, the lower part of which, known as the Phillipi marsh, was frequently entirely inundated. The total area of the Struma valley is 1,560,000 stremmas, and prior to the works only 660,000 stremmas were cultivated.[1]

By 1928 it was acknowledged that the reclamation of the Struma plain could no longer be deferred. In addition to the pressure to expand the country's cultivable frontiers and to enhance economic development in Macedonia, this region was noted for its high incidence of malaria.[2] Moreover, the catastrophic annual floods of the Struma river had exasperated the local peasants who were basically refugees.[3]

This was the only infrastructure scheme to actually begin under Venizelos. At the time, it was estimated that around 900,000 stremmas would be made available for cultivation. Economically important, the project was plagued by problems similar to those that beset the reclamation of the Vardar valley. These were the insufficient flow of foreign finance and the slow pace of the works. Also, as was the case with the Vardar valley scheme information is lacking regarding its total cost.

4.2. The Preliminaries

Venizelos was known for not accepting blindly his predecessors commitments. In point of fact, when he stepped into office in July 1928, he honoured the coalition's decisions regarding land reclamation only in part and to the extent that it suited him. He accepted the decision of the coalition to award the Struma valley project to a U.S. firm.[4] However, this did not imply that Monks-Ulen would be the contractor. (For the decision of the coalition to assign the scheme to Monks-Ulen see Book II, Section II, Chapter 1, 1.2.) Venizelos made two related alterations. First, he announced that the reclamation of Thessaly and Epirus would have to be delayed. Second, he decided to separate the issues of construction and finance for the reclamation schemes. As already stated, Venizelos planned to raise one large loan for public works. The logic behind this move was that the government would be able to attain better financial terms if it negotiated directly with foreign financial houses rather than through the intermediation of contractors for each public works loan. A note which exists in the Venizelos archives is revealing. It states:

> "If the government concludes a loan separately from the technical works then it will be in a position to force the interested concerned American contractors to improve substantially their terms for the land drainage projects because on the one hand they will not be burdened with banking obligations, and on the other knowing that they are in danger of loosing the undertaking of these works (in view of the fact that there exist Austrian and German firms which have the necessary machinery for which the state will not pay, and are thus in a position to undertake the works at a remuneration [i.e. general expenses and fee] of less than 19%)".[5]

It is not known if the government was approached by any Austrian or German firms. Nevertheless, despite being committed to the appointment of an American firm, Venizelos did not hesitate to put pressure on the two American contestants (i.e Monks-Ulen and The Foundation Co.) to improve their terms. He did so partly for political and diplomatic reasons. Christomanos, the minister of communications insisted (as his predecessor Metaxas had done) that preference should be given to Boot.[6] While the British Foreign Office made repeated appeals to Venizelos to assign the project to Boot.[7] Indeed, Mackillop of the British Legation asked that the British lay a new embargo on loans to the Greek government in the event that "Boot remained empty handed".[8] Monks-Ulen countered this renewed 'competition' by lowering its commission from around 27% to 22% of the cost of the works. (Reportedly The Foundation Co. did not bulge from its original offer).[9] This move on the part of Monks-Ulen provoked the British contractor to retaliate in two ways. First, Boot reduced the remuneration it demanded to 18.5%. Second, Boot persuaded Seligman, the financial backer of Monks-Ulen, to handle the finance for its scheme. Stephens of Seligman wrote to C.Boot that "We are of course prepared to include in such a loan [i.e. a large public works loan] the financing of any construction contract entered into at this time between your firm and the Hellenic government".[10] Boot's original financial backers would undertake on behalf of Seligman the London portion of the large loan.[11] Apparently Seligman was forced -presumably either by the government of by Monks-Ulen- to retract and confine the offer made to Boot only to the Epirus project and not the reclamation of the Struma valley.[12] In the beginning of September 1928, Venizelos assigned the Struma project to Monks-Ulen at a rate of remuneration of 21.63%. The Premier expressed anger at the British intervention, while admitting that the coalition government had been short-sighted in limiting competition for the project only to American firms.[13] The contract was signed on October 20 1928.[14] It was presented for approval to the National Assembly three days later. In sum, the terms posed for this cost-plus agency contract were far more advantageous for the government compared to the previous agreements that had been made for public work schemes. Notably, instead of being calculated on a percentage basis, the fee was fixed at $1,700,000. This amount was equivalent to 10% of the estimated cost of the works. As Table 1 below documents, in the three years that had intervened since the first land reclamation project began the government had come some way.

Table 1

The Contracts:
The Vardar Valley Versus the Struma Plain Areas in which there were Basic Differences

Vardar Valley	Struma Plains
1. Public adjucation	
Not obligatory procedure for the purchase or hire of all machinery, equipment,etc..	Obligatory procedure for purchase or hire of all machinery equipment, etc..
2. General expenses as a % of the cost of the works	
17%	11.63%
3. Fee	
17.55% of the cost of the works	$1,700,000*
4. Guarantee	
$50,000	$400,000
5. Arbitrator of last resort appointed by:	
Minister of public works of Switzerland	Supreme Court of Greece
6. Financing of the scheme	
Contractor under obligation to secure necessary financing	Contractor under no obligation to secure loan capital for the government.
7. Concession	
Concession granted	No concession granted

*This was a fixed fee.

The parliamentary committees set up did not take long to prepare a report and the contract was ratified on November 13 1928 without practically any modifications.[15] However, dissent was expressed in the Assembly. The arguments were of familiar tone. It was argued that the study for the project should have been assigned to Greek engineers;[16] that a fixed cost agreement should have been made and that the reward given to the contractor should have been lower. However, this last point was unfair criticism. It should be recalled that at the time the standard remuneration for Greek contractors was 10% for general expenses plus a 10% fee.[17]

It was also pointed out that since approximately half of the work would be subcontracted, the contractor should not have received a commission for this work.[18] Surprisingly, nothing was directly said in favour of Boot. It was as if by silent consent all agreed that the government had no choice but to allocate the project to a U.S. firm. However, Boot was not left totally out of the picture. A little over a year after it assigned the Struma reclamation scheme to the American firm

Monks-Ulen, the Venizelos government concluded a contract with H.Boot & Sons. It differed from the previous land improvement schemes. The contractor was charged with the task of preparing studies for the reclamation and irrigation work and for hydroelectrical schemes in Thessaly, Epirus, and Crete. The government guaranteed that the contract for the project(s) would be allocated to Boot in the event that the work began 10 years after the studies were completed. Again the contract was of an agency-cost plus-type. The fee and general expenses were fixed at 19% of the total cost. This was a low figure for 1929, but by the time the reclamation of the Thessaly valley actually started - i.e. in 1937-the going rate was lower.[19] (See Book II, Section I, Chapter 1, Table 12).

4.3. The Implementation of the Project

This was a large project and its object was to render practically all of the Struma plain cultivable. For this purpose the works entailed the construction of anti-flood works, the regulation of the course of the Struma river and various streams plus the drainage of the Boutkovon and Achines lakes, the Phillipi marshes, and water logged areas. This scheme had an estimated cost of $21,000,000 (as opposed to $26,000,000 for the Vardar valley scheme) and was to be completed by 1934.[20] The work was wrought with technical difficulties- particularly the canalization of the Struma river - and alternative solutions were found. For example, barrages to prevent the silt from flowing downriver should have been built near the Struma's spring in Bulgaria. However, due to the animosity between Greece and its neighbour the contractor constructed barrages at the highest point of the river upon entering Greece.[21]

Table 2

Reclaimed Lands: the Goals and the Record
(in stremmas)

Project	Goal	1932	1941	1952
Vardar Valley				
a. area drained	502,000	81,000	350,000	400,000
b. area protected from floods & improved	801,000	-	500,000	800,000
c. irrigated land	-	-	950,000	
Struma Valley				
a. land drained	576,775	?	390,000	455,000
b. area protected from floods&improved	983,225		480,000	825,000
c. irrigated land	776,000	-	140,000	600,000

Compiled from: A.G. Dolianitis, The Drainage of the Swamps, Lakes and Lagoons of the Country, (Athens), p.15. Also, John Monks & Sons, and Ulen & Co., Reclamation Works of Serres and Drama plains, (Athens, 1932), p.19.

Table 3

Amounts Spent on the Land Improvement Schemes up to 1937

Year	Vardar Valley		Struma Valley	
	Public Work Loans $	State Budget drs.	Public Work Loans $	State Budget drs.
1925	36,000			
1926	664,000			
1927	770,000			
1928	778,000			
1929	5,802,000		2,310,500	
1930	1,125,000		2,422,000	
1931	2,175,160	48,978,000	3,227,020	55,000,000
1932		172,978,000		144,621,500
1933		120,000,000		141,350,500
1934		114,500,000		140,000,000
1935		63,500,000		221,500,000
1936		91,000,000		278,500,000
1937		18,000,000		25,000,000
Total	11,000,160	628,956,000[1]	7,959,520	1,005,971,500[2]

[1]The total amount is equivalent to $ 5,395,657.
[2]The total amount is equivalent to $ 8,888,735.

Source: A.G. Dolianitis, The Drainage of the Swamps, Lakes and Lagoons of the Country, (Athens), Table 18, p.55

Earthworks began in February 1929, and construction reached its most intensive phase in 1931.[22] Thereafter work slowed down as a result of the abrupt cessation of the flow of foreign finance.[23] Between 1929 and 1931 around $8,900,000 was spent on the scheme. This made for an average annual expenditure of $2,900,000. For the remaining 6 years (i.e.between 1932 and 1937) during which work continued fitfully, the average annual expenditure in drachmae was equivalent to roughly $1,300,000. (See Table 3 below). While hard evidence is lacking, it appears that the contractor had completed approximately 1/3 of the land drainage, about 40% of the flood protection and land improvement aspect of the scheme but had done nothing in the way of setting up an irrigation network before the work was handed over to the newly founded National Fund for the Hydraulic Works of Macedonia in 1937. The scheme was more or less completed by 1951. Given the long duration of the works and the fact that by 1938 the amount spent was equivalent to 80% of the original estimates (which had not included irrigation) it is obvious that the total cost were substantially higher than what had been anticipated. Up to 1938 less than half the amount (i.e. 47%) was covered by the two public work loans, and thus the contribution of the state budget was more substantial than what was the case with the Vardar valley project. (See above Tables 2, and 3).

4.4. Land Reclamation in Perspective

In early 1932 in view of the drying up of the inflow of foreign capital the government was trapped. It required $4,874,000 annually to service the two public works loans and a further $1,325,000 for the maintenance of the works. This was a heavy burden.[24] In addition if it were to complete the two reclamation schemes, it was estimated that it would have to incur an extra debt of $48-$50,000,000 (i.e. approximately £13,5-£14,000,000).[25]

Thus, the government came under pressure to reassess its strategy. The foreign and Greek experts consulted,[26] unanimously agreed that it was technically impossible to suspend construction and that work would have to continue -albeit at a slower pace.[27] Finlayson advised that if the reclaimed lands did not start generating income prior to the full completion of the works the loans raised could in a narrow financial sense no longer be classified as productive. He also suggested that an autonomous body -similar to the R.S.C.- and headed by a foreign expert should be placed in charge of overseeing the progress of the works.[28] But, the state wanted to rid itself of foreign control not create new agencies of supervision. The Venizelos government in 1932 planned to set up a a Greek company to supervise the exploitation of the new lands to be handed over by foreign contractors in Macedonia.[29] But the National Assembly did not agree and nothing was done for four years.[30] Thus, those areas that were drained lay unexploited. In part this was because the government could not decide upon a settlement policy. Whether to aim at settling the maximum amount of peasants on the reclaimed lands for social and economic reasons or whether to aim at attaining the highest possible yield from these lands through the employment of the most modern and scientific methods of cultivation?[31] Finally in 1937, under the Metaxas dictatorship, the Special Fund for the Hydraulic Works of Macedonia undertook the continuation of the works, maintenance, exploitation of the reclaimed lands. We do not know exact details but it seems that the contractors departed without raising any major objections.[32]

In conclusion, throughout the twenties the reclamation works in Macedonia had been seen by the politicians and the state as a panacea which would enable the country to become self-sufficient in cereals.[33] But, Greece unlike Italy did not win its 'battle of grain' In the thirties.[34] The projects it began were not completed. The bitter truth was that even if they had been completed, the yield would have been inadequate.[35] In 1932 it was estimated that if all the areas to be reclaimed in Macedonia were devoted to growing wheat they would economize on importing 120,000 tons of wheat per annum, whereas the average annual volume of wheat imports was 564,500 tons.[36]

References

1. Monks & Ulen, Reclamation Works of Serres and Drama plains, (Athens, 1932), pp.7, 12-15. For path of Struma river see: Economic Yearbook of Greece for 1935, p.238. For area cultivated prior to the works, see: Economic Yearbook of Greece for 1932, p.111

2. The national average was calculated as being 23.7% of the population during the decade 1913-1922. Source: Dolianitis, *op.cit.*, p.9. Whereas for the Struma plain it was on average 37.4%. Source: Monks & Ulen, *op.cit.*, p.30.

3. For the intense dissatisfaction of the locals in 1928, see: N.B.G./H.A., X Banks, Foreign Banks, File 67, N.B.G. correspondence and Hambros: Drossopoulos to Hambro, May 11 1928.

4. For commitment taken by coalition towards the U.S.A. government, see: M.F.A./H.A., A/14 1928-1929, Struma Works, Goold to Venizelos, August 9 1928.

5. Karamanlis argues that possibly Venizelos was tricked by Maris in believing that the American offer was more advantageous. Source: Karamanlis, *op.cit.*, p.262. However the quotation mentioned in the text shows that Venizelos was clearly aware of the economic facts surrounding the offers as they stood. See: B.M./V.A., File 66, document titled: 'Drainage works of Struma, Fillipi, Thessaly, Epirus, etc.'.

6. For Christomanos' position see: M.F.A./H.A. A/14 1928-1929, 'Struma Works', C.Boot to Mackillop, August 12 1928.

7. Karamanlis describes in detail the pressure put on Venizelos by Lloyd George and the British Legation, Karamanlis, *op.cit.*, pp.260-266. Also see: M.F.A./H.A.: A/14 1928-1929, Struma Works: Kaklamanos to the minister of Foreign Affairs, August 1 1928; D.Mackillop to Venizelos, August 1,13,28 1928. Sir Percy Loraine to Venizelos, July 11 1928.

8. FO371/12930/C3482 Mackillop to Chamberlain, August 14 1928.

9. For the renewed offers see: B.M./V.A., File 333, C.Boot to Venizelos, July 26 1928. For the fact that The Foundation Co. did not bulge, see: *Εθνικός Κήρυκας*, Vol.9, Session of November 13 1928, p.192.

10. M.F.A./H.A., A/14 1928-1929, Stephens to C.Boot, July 5 1928.

11. For the fact that Helbert Wagg were willing to strike such a deal, see: B.M./V.A., File 333, C.Boot to Venizelos, July 26 1928; also M.F.A./H.A., A/14 1928-1929, 'Struma Works': document titled: 'A note on the conversation held between Venizelos and the British Charge' d' Affaires, Mr. Mackillop', August 2 1928.

12. M.F.A./H.A., A/14, 1928-1929, Struma Works: Venizelos to Mackillop, August 11 1928.

13. M.F.A./H.A., A/14, 1928 1929, Struma works, Venizelos to London Embassy, September 2 1928. Also, Markezinis, *op.cit.*, p.350.

14. *G.G.*, First issue, Folio 279 of December 31 1928.

15. One modification which was attained was that for the first time a Greek institution (i.e. the Supreme Court) was placed in charge of determining the arbitrator of last resort. In the contract originally the American Ambassador in Greece in conjunction cooperation with the Supreme Court were to determine the arbitrator. Source: *Εθνικός Κήρυκας, op.cit.*, Vol.9, Session of November 13 1928, pp.192-193.

16. It is mentioned that the study for the training of the Dunabe river was undertaken by Roumanian engineers who after terminating it submitted it to foreign specialists for approval. Source: *Εθνικός Κήρυκας, op.cit.*, Vol. 9, Session of November 13 1928, p.185.

17. The general expenses charged in other European countries were also never above 10%. Source: *Εθνικός Κήρυκας, op.cit.*, Vol. 9, Session of November 13 1928, pp.186-7.

18. For the 'unlimited' responsibilities of the state towards the contractor see articles 2,9,25 and for the 'limited' obligations of the contractor towards the state, see: article 26 of the contract. Source:*G.G.*, First issue, Folio 279, December 31 1928.

19. For details on the Boot contract, see: Economic Yearbook of Greece for 1939, pp.159-162. Also, Stephanides, *op.cit.*, pp.252-253.

20. By cost we mean the total cost, i.e. the cost of the works, the general expenses and the fee. As for the duration of the works, one year was to be devoted to making the study and five years for the implementation of the project. Indicative of the slow pace is that by June 1933 land protected amounted to 389,000 stremmas and the land drained was 190,000 stremmas. Source: Economic Yearbook of Greece for 1933, p.352.

21. *Εθνικός Κήρυκας, op.cit.*, Vol. 9, Session of November 13 1928, p.187.

22. The number of workers employed is not known. However it is known that during the peak year 1931 the number was 3.800 and in 1932 it was 3,400. Source: Economic Yearbook of Greece for 1933, p.349.

23. The lack of flow of funds is testified also in Genidounias, Supreme Economic Council, wherein it is testified that during 1932 the state supplied only 1/3 of the amount that was necessary for the smooth progress of the works. Following 1931 the funds provided for the continuation of the works were inadequate -For example in early 1932 the National Assembly allocated for the fiscal year 1932-33 500,000,000 drs. to the works whereas it was estimated that what was needed was about 2,000,000,000 drs. Source: G.L.H.A./D.A., File 37, Document 23, Filaretos to Venizelos, May 19 1932.

24. Economic Yearbook of Greece for 1931, p.114.

25. The logic being that up to 1932 $21,000,000 had already been spent and that the total cost (drainage, irrigation and mise en valeur) would amount to $59,500,000. In order to secure the remaining $39,000,000 it would be necessary to raise a loan which would have a nominal value of at least $49,000,000 assuming that the running price of issue would be in the area of 80%. According to Haritakis, the total cost would amount to $59,500,000. However, he states that other sources raise the total cost of the works to $60,000,000 and even $70,000,000. Source: Economic Yearbook of Greece for 1932, pp.119,123. Among the foreign experts, Jeffery's stated $75,000,000. But, Bailey, suggested that the settling of rural families on the lands would cost more than what was estimated by Jeffery and thus the total cost of the works would amount to $80,000,000. Source: Supreme Economic Council, (1935), *op.cit.*, pp.24,48.

26. The foreign experts were the British soil specialist and agronomist Harold Jefferey and the Italian senator Natale Prampolini who had extensive experience in matters of land reclamation. (The latter was recommended by Mussolini). See: Supreme Economic Council, p.89. The Greeks were experienced government officials, academics and politicians. The most quoted of the Greek specialists to advise was Karamanos who was an ex general director of the ministry of agriculture. For the Karamanos report, see: *Ελεύθερον Βήμα*, March 7 1932. Also G.H.L.A./D.A., File 37/30 'Note on the productive works'. Among the other Greeks to give advise were: Hr. Evelpidis, K.Georgakopoulos, St. Kostopoulos, G. Pesmazoglou: See Greek Chamber of Engineering, *op.cit.*, *passim.*

27. Other issues addressed where: How could the lands be put to better use so as to eradicate the trade gap; which institutional set up would be best for their exploitation; to what extent should the lands be handed to new settlers, be cultivated on the basis of cooperative farming or large enterprise.

28. G.L.H.A./D.A., File 37, Document 26, titled: "The concluding of 'public work loans' abroad and the necessary measures for their redemption", undated.

29. But there was dissension as to whether this company would be run by the state or if it should have an autonomous character. For debate regarding the nature of the maintenance company see the report prepared by G.H.Bailey general director of the Lake Copais Co. Source: Supreme Economic Council, (1935), *op.cit.*, pp.47-58.

30. This company was to be set up by the National Bank the Agricultural Bank and the Bank of Greece were to provide in equal shares a total amount of 50,000,000 drs as share capital. The state would have 2/5 of the votes. The reclaimed lands that belonged to the state would be conceded to this company which would not operate as a concession in the traditional sense. Source: G.L.H.A./D.A., Documents 37/21, 37/22: proposal and daft law for the creation of a Greek public maintenance company. August 1932.

31. Supreme Economic Council, (1935), *op.cit.*, p.51.

32. This special fund was set up by Law 204 of 1936. Source: Dolianitis, *op.cit.*, p.14.

33. For the conviction of Venizelos that the land drainage works would make Greece self-sufficient in basic agricultural goods, see: S.Stephanou (ed.), Το Εργον της Κυβερνήσεως Βενιζέλου κατά την Τετραετίαν 1928-1932 (TheRecord of the Venizelos Government during the Four Year Period 1928-1932), (Athens, 1932), pp.150-155. For the plans for the Greek management company to be set up, see: G.L.H.A./D.A., File 37, Document 24,titled prelimary report and draft law for the management and exploitation of the drained and improved lands in Macedonia, August 10, 11 1932.

34. Clough, *op.cit.*, pp.241-244.

35. Karamanos, Prampolini, Haritakis were sceptical. Even Jefferey noted that though the quality of the reclaimed land was in general good, there were areas where the salinity of the soil was exceptionally high. Estimations regarding the yield the reclaimed lands varied extensively. Karamanos: 770 drachmae per stremma. Prampolini: 827 drs. per stremma. G.Pesmazoglou: 525 drs. per stremma. Source: Economic Yearbook of Greece for 1931, *op.cit.*, pp.115,125. But according to another source, the numbers for the Struma valley were: Jefferys: 547 drs. per stremma; Prampolini:827; Karamanos:901. Source: Supreme Economic Council, (1935), *op.cit.*, p.101.

36. For economies on imports see: B.E./C.B.P.327 Vol.7, "Greek Public Works Programme-Synopsis of Experts' Opinions", July 26 1932, Signed C.A.G. For the average annual value of wheat imports for 1926-1932 was 564,500 tons. I.e. wheat imports would decrease by 20%. See: Economic Yearbook of Greece for 1939, Athens, 1940, part II, p.24.

Chapter 5
The Second Public Works Loan

5.1. Basic Features

As was the case with the First Public Works Loan of December 1928, the Second Public Works Loan of March 1931 which marked the termination of foreign borrowing by the Greek state prior to WWII, was at £4,600,000 the largest infrastructure loan of the period. Existing scholarship has given scant reference to this loan in inspite its significance. As was the case with the First Public Works Loan of December 1928, loan it was raised by public flotation and was not spent on one exclusive project. (For a description of how the proceeds of this loan were allocated see: Book II, Section I, Chapter 2, Table 6) In addition, it was the only non League loan to have an international syndicated character. However, the degree of internationalism of this loan must not be exaggerated. It did not signify the demise of British tutelage nor of the domin' ;ance of Hambros. On the contrary Hambros headed the syndicate.

By 1931, the government had come some way from the days when it relied on the contractors to raise the necessary capital for infrastructure projects but in essence it continued to remain a weak partner in the world financial market. Clearly the international environment in the early thirties was not supportive of foreign loans. One could argue that Greece did surprisingly well. However, let it be underlined at this point that the government would not have done much better, even if the environment was different, because formal external supervision (i.e. the League of Nations, the Bank of England, etc.) and the private bankers (Hambros) were concerned about overborrowing.

5.2. The International Syndicate

Before looking into the details of the loan it should be noted that the active participation of Diomedes in the negotiations reflected the growing 'domestic' influence of the recently founded central bank.[1] As has already been mentioned, (see Book II, Section III, Chapter 3, 3.1.) in April 1930, i.e about 16 months after the flotation of the First Public Works Loan, the Venizelos cabinet sounded out Hambros as to whether it would 'approve' to raise an additional £8,000,000.

Hambros was skeptical and responded that in **one year** it could float a loan that would **not exceed** £8,000,000 (meaning of course that it could very well be less).[2] Thus, the Second Public Works Loan provided in May 1931 amounted to 'only' 57% of the requested funds.

Ironically, it was not Greece's strength but rather Hambros' reluctance to undertake the issue on its own that is responsible for the international character of the Second Public Works Loan. Whereas in 1928 Hambros had been keen on issuing the £4,000,000 public works loan completely on its own, in 1931 due to the unsettled condition of the financial market, it strove to assign as large as possible an amount to other banks. Apparently, Hambros by this point had become more interested in direct investments than in Greek government loans. Indicative of this change of attitude was the fact that Hambros let it be understood that it would organize the flotation of the Second Public Works Loan only if the government would immediately grant a new concession for the P.A.P. railways.[3]

The loan was raised simultaneously in six European countries; Britain, Holland, Switzerland, Sweden, Italy and Greece. Eight banks were involved, Hambros Bank, Erlangers Ltd., Mendelsohn & Co., Nederlandsche Handel- Maatschapjj, Credit Suisse, Stockholms Enskilda Bank, Banca Commerciale Italiana and the National Bank of Greece. (See Table 1) Only the two Dutch bankers were newcomers in the Greek arena. The others had already participated in the flotation of the League Stabilization Loan. Inspite of the impressive list of countries and banks this loan was a highly concentrated affair. Hambros and the National Bank of Greece issued 66% of the loan capital (44% and 22% respectively). The N.B.G. participation in this last pre-1932 flotation was a measure of the limited access to the international capital market enjoyed by the government. Indeed, a pattern of symmetry was played out: the National Bank had also been asked to contribute to the Refugee Loan of 1924 which was the first issue of the period. As head of the syndicate, Hambros was in charge of allocating quotas.[4] It attempted without success to secure the participation of American capital. Speyer, National City Bank, and Seligmans were approached. However, each of these bankers explained that the U.S.A. market had 'shutdown' as regards overseas long-dated paper, and was thus not yet in a position to absorb a large Greek issue. Instead they counterproposed that they undertake a new issue of one year Treasury bonds amounting to $7,500,000. But Athens was not interested.[5]

Table 1

Underwriters of the Second Public Works Loan

Hambros Bank and Erlangers	£2,000,000
National Bank of Greece	£1,000,000
Stockholms Enskilda Bank	£ 500,000
Credit Suisse	£ 400,000
Banca Commerciale Italiana	£ 400,000
Mendelsohn & Co. and Nederlandsche Handel-Maatschappij	£ 300,000
Total	£4,600,000

Compiled from: G. Haritakis, Economic Yearbook of Greece for 1932, (Athens, 1933), p.525.

It may be argued that the diverse European character of the new loan (i.e. the participation of the smaller capital markets such as: Sweden, Switzerland, Holland, and Italy) was due more to Hambro's failure to secure American participation than to any real improvement of the status of the Greek government in the international financial market. In a nutshell, there was a 'contraction' in the world market. Only a **few** markets remained open and only a **few** borrowers were accepted.

Venizelos had entertained the hope that French capital would show an interest in this loan,[6] and was not deterred by the fact that in France flotations were in general more expensive.[7] What mattered most to the Prime Minister was to rid Greece from the overwhelming dependence on Britain. In a gesture of conciliation towards France, Venizelos in the autumn of 1930, arranged that the construction of a large housing project for the refugees in Athens be assigned to the French firm Compagnie Immobiliere du Boulevard Haussman and not to a British consortium Holland, Hannen & Lubits inspite of the fact that the latter was associated with Hambros and had offered better terms. Hambros was angered by this decision and it threatened that if the project went through with the French it would not help the government raise a Second Public Works Loan.[8] But, this move proved ineffective. The French government was at the moment in an awkward position regarding foreign flotations because of the need to defend the franc. It was made clear to Athens that no loan could be floated on the Paris bourse unless the government acquiesced to take steps in the direction of fulfilling its payments on the Ottoman debt and meeting its financial obligations regarding the purchase of the Salonika Monastir line from the Ottoman railways. Keen as he may have been for a French participation, Venizelos was not prepared to tie the flotation of this loan to these unrelated issues.[9]

5.3. Hambros Terms and the Flotation of the Loan

In order to secure a successful flotation of a Second Public Works Loan, Hambros instead of agreeing to provide the £8,000,000 requested, arranged for a flotation amounting to only £4,600,000. With this move a wide margin of safety was established for the 'investor' in the bonds of the two public works loans. The annual service for the two public works loans at a 'mere' £575,530 was more than adequately covered. The income of the government revenues pledged for the public works flotations amounted to £5,340,610 in 1930.[10] In addition, Hambro took two further measures. He demanded that the proceeds of the loan be exclusively spent on infrastructure development and insisted that the price at which the bonds were offered to the public should be no higher than 87. (The price at which the bonds of the First Public Works Loan had been offered to the public had been 89 and the contemporaneous average price of issue in London for foreign government flotations was 95.2. Table 1a & 1b -in Book II, Section III, Chapter 2- portrays that the Second Public Works Loan was a worse deal and that Greece's credit standing in the international capital market had fallen). Diomedes announced that he was not happy with this low issue price. Norman informed him that it could not be raised and that he doubted whether at that time the Treasury would allow any foreign government to raise a loan. This was rather hypocritical and stood on thin ground for shortly after the flotation of this loan the Chilean government raised £7,000,000 in the City.[11]

The loan was floated on March 23 1931.[12] With the exception of the N.B.G. which decided not to go ahead with a public subscription, all the other members of the syndicate offered the bonds to the public at 87.[13] The amount which the government received -after paying for the bankers commission, stamp duty and other expenses- was 82.[14] At five points the spread was equal to that of the First Public Works Loan. Inspite the low issue price, the ample securities provided and the fact that shortly before the flotation a support syndicate was set up which spent £200,000 on buying Greek bonds in the City, the public did not rush to subscribe.[15] The British underwriters were forced to take up 85% of the bonds they issued.[16] Notably, in the City the bonds right from the beginning stood steadily at a discount of 2%.[17]

The failure of the market to absorb the flotation was commented upon in London.[18] At home, Diomedes was labelled by the press as the enslaverer of Greece. It was suggested, once again, that the infrastructure projects ought to be financed from the budget surplus and not foreign borrowing. Only the *Ελεύθερον Βήμα*, a staunch supporter of Venizelos, did not criticize the loan.[19] The warnings that the government should curtail its demand for foreign borrowing were misplaced as the international capital market was no longer interested in Greece. Inspite of Venizelos' pleas to foreign financiers and the League of Nations, no more money was raised for Greek infrastructure development either in Britain or elsewhere.[20] Infact, only three months later Hambros effectively placed an embargo on Greek loans. In a letter to Diomedes on June 17 1931 Charles Hambro wrote:

> "As you know, we are adverse to allowing any direct Greek government bond to be placed or quoted on the London market for at least two years as we are strongly of the opinion that it would be most detrimental to Greek credit for such an event to occur."[21]

Charles Hambro was obviously exercised by the problems of the moment. Thus, what is of utmost significance from the point of view of historical research and this dissertation in particular is that the London market became closed to the Greek government prior to the abandonment of the gold standard by Britain. In terms of establishing the causes for the 'drying up' of foreign capital inflow into Greece this cut off date is of importance. It does not allow us to agree with the popular interpretation that Greece was a passive victim of the world crisis i.e. a totally exogenous parameter. However, it must be remarked that according to the R.I.I.A. in 1930 the partial embargo placed by the British government on new issues 'was intensified' in 1931. But, it is not stated when exactly during the year this came into effect (i.e. whether it occurred before or after Britain went off the gold standard).[22]

References

1. For Diomedes involvement in the negotiations, see: *Ακρόπολις*, March 21 1931; and *Πρωΐα*, March 20 1931.

2. G.G: First issue, Folio 124, April 4 1930.

3. Hambros wanted a new concession in order to free "the company from bureaucratic interference in its management as a commercial concern". But, Hambro was tricked as no new concession was granted by Venizelos. The latter did not want the government to loose control over the P.A.P. rails. Namely, to divest itself of a share in the profits and certain managerial matters. Source: N.B.G./H.A., XXV Public Works, B' Railways, File 28, P.A.P.: English plan for the new concession, May 5 1931; also, same archive, XXV Public Works, B'Railways, File 29, P.A.P.: (X) to Hambro , February 21 1931; Hambro to Venizelos, May 12 1931 (for quotation); and also Corrington to Drossopoulos, June 27 1932.

4. Indicatively, Eric Hambro put his signature on the loan contract on behalf of the Dutch and Swedish bankers. For details regarding Hambros arrangements regarding the Greek and Italian participation in the loan, see: G.L.H.A./D.A., Hambros Bank to Drossopoulos, March 20 1931. Also N.B.G./H.A., X Loans, A' Public loans, File 143, Second Public Works loan: Hambro to Drossopoulos, March 19,20,21 1931.

5. On the effort of Hambros to secure the participation of the American capital market, see: M.F.A./H.A., A/14, 1931: Marketis to Ministry of Foreign Affairs, March 31 1931. Also, N.B.G./H.A., X Loans, A' Public loans, File 143, Second Public Works loan: Hambros to Drossopoulos, March 17 1931.

6. Karamanlis, *op.cit.*, p.273.

7. On the high cost of French loans, see: *Ελεύθερον Βήμα*, March 21 1931; also, *Πρωΐα*, March 21 1931; and M.F.A./H.A., File: A/1931: Kaklamanos to Michalakopoulos, February 5 1931.

8. In the end this scheme did not materialize, but even if it had it is doubtful whether Hambros would have found it worthwhile to carry out its threat. Source: FO371/14389/C3054, Ramsey to Sargent, November 4 1930, December 1 1930, and December 27 1930.

9. For the refusal of the French to allow Greece to repay her share of the Ottoman debt on the same basis as Turkey, see: FO371/15299/C11351 Minutes of March 6 1931. The Greek government finally reached an agreement regarding the purchase of the Ottoman railways on March 10 1932. On the demands raised by the French regarding the participation in a Greek loan, see: M.F.A./H.A., File:A/14 1931: Ministry of Foreign Affairs to Ministry of Finance, March 9 1931; Kanellopoulos to Ministry of Foreign Affairs, March 22 1931. Also same archive, A (Productive loan)/1931, Marketis to Michalakopoulos, March 7 1931. Also, B.G./T.A., 46/1, (X) to Diomedes, February 26 1931.

10. For the size of the service of the public work loans and the annual revenues of the government, see: N.B.G./H.A., X Loans, A' Public Loans, File 143, Second Public Works loan: pamphlet for the loan, dated March 23 1931.

11. M.F.A./H.A., File: A/14 1931, Kaklamanos to Ministry of Finance, March 19 1931. For the Chilean loan and for the pressure put on the Greeks by the Bank of England and Hambros to have the Second Public Works Loan floated before the Chilean loan, see: *Ελεύθερον Βήμα*, March 23 1931, and M.F.A./H.A., File: A/14 1931, Kaklamanos to Ministry of Finance, March 19 1931.

12. The contract for the Second Public Works Loan is found in the *G.G.*, First issue, Folio 119, May 4 1931.

13. The National Bank of Greece decided at the last minute not to offer its bonds for sale because Hambros did not allow it to sell them at a lower price. It feared that the public would not be interested in the bonds if they were priced at 87, and it argued that since there was no stamp duty in Greece it should have been allowed to place the bonds on the market at a price of 85. Thus, in the end, the Greek issue was absorbed privately by the N.B.G., other large banks and the Caisses. Source: N.B.G./H.A., X Loans, A' Public Loans, File 143, Second Public Works loan: Hambros to Drossopoulos, March 20 1931, Drossopoulos to Hambro, April 4 1931.

14. The bankers commission and other expenses were 3.5%. But, the stamp duty on average was 1.5% in the member countries of the syndicate. Thus the real price of issue amounted to 82.

15. Half of the amount spent on the support of the Greek bonds in the City was granted by Hambros and Erlangers, and half by the N.B.G. and the Central Bank of Greece. N.B.G./H.A., X loans, A' Public Loans, File 143, Second Public Works loan: Hambros to N.B.G., March 27 1931.

16. FO371/15229/C3006, May 6 1931, Roussin to Henderson, April 24 1931.

17. N.B.G./H.A., X Loans, A'Public loans, File 143, Second Public Works loan: Hambros to N.B.G., March 27 1931, Hambro to Drossopoulos,March 30 1931.

18. M.F.A./H.A., File: A/14 1931, Kaklamanos to Ministry of Foreign Affairs, March 28 1931.

19. *Ελεύθερον Βήμα,* March 23 1931. For criticism see: *Ελληνική*, March 21, April 2 1931; *Φωνή της Πατρίδος*, March 20 1931; *Ακρόπολις*, March 20 1931.

20. For Venizelos' effort to raise a loan to stave off the crisis, see: Daphnes, Vol.B, *op.cit.,* pp.114-115.

21. N.B.G./H.A., XXII Banks, Foreign Banks, File 68, N.B.G. and correspondence with Hambros: C.Hambro to Diomedes, June 17 1931.

22. However the R.I.I.A. notes that: "The first public appeal to the capital market to refrain from floating new issues was made by the Chancellor of the Exchequer in June 1932, just before the War Loan conversion operations were undertaken". See: R.I.I.A., (1937), *op.cit.*, pp.76-78,134-135.

CONCLUSION

1. From ad hoc Practice to ad hoc 'Theorizing'

The contemporary Greek academic community and the corps of engineers were vocal in their criticism of the terms under which foreign contractors undertook the building of Greece's physical infrastructure. Some, carried away by extreme anti-western sentiments, made foolish comments. For example, one source argued that the foreigners avoided using qualified Greek experts in order to hide their lack of expertise![1]

At the time, there was a 'ragbag' of issues brought up from which it is possible to discern the following common theme: the contracts should have been of a fixed cost type and the government should have attained a higher degree of control over the technical aspects of the schemes.[2] Of special interest to the scholar is the fact that two sensitive topics, which have occupied a central position in the international economic development literature of the postwar years, were raised. The first was the limited extent to which there was a transfer of technology and dissemination of 'know how'. It was maintained that the contractors should have been obliged to educate and employ more local talent than what was the case. Secondly, the local Intelligentsia claimed that the technology applied was too capital intensive and not suited to Greece's resource endowment. They blamed the cost-plus nature of the agency contracts as being responsible for this 'failing'. Under this system, the contractor had a strong pecuniary incentive to prefer machines over labour. For, the higher the cost of construction, the higher was its remuneration. In addition, the contractor as a commercial intermediary made a direct profit from the purchasing or leasing of large and expensive equipment for the works.[3] It is indicative that only 19% of the cubic yards of earth moved for the reclamation of the Vardar valley was done by labour (the remaining 81% being dug and transported by colossal machinery).

On the face of it, contemporary critics were correct. There was a waste of resources considering that unemployment in Greece at the time was high. However, what appears to have been the case (at least with the land reclamation schemes) was that there was a paradoxical labour shortage.[4] For, though "labour rates were low, and earthworks could be done cheaply by labour, using local carts to transport the spoil from the borrow pits to the embankments", the problem was that labour was not always "forthcoming". As a top engineer of The Foundation Co. noted:

> "During the periods of ploughing and of harvesting, labour was difficult to obtain even when high wages were offered; and this difficulty increased each year as more and more land was put under plough".[5]

Table 1

Number of Workers Employed for the Public Work Schemes at the Peak of the Construction Phase[1]

Project	Number of workers
Athens water scheme[2]	
Vardar valley reclamation	4,300
Struma valley reclamation	3,400
Road works	15,000

[1]This list is not complete and it covers only the years of peak activity in these schemes.
[2]Unfortunately for the Athens water scheme, which was the only project to maintain a momentum throughout the twenties we do not have figures for the number of workers it employed. The only information we have is that the maintenance company which was set up by the contractor and the Bank of Athens by 1934 had some 1,000 employees. (See: Book II, Section I, Chapter 1).

Compiled from: information presented on the public work projects throughout Book II.

The capital intensive techniques employed, in combination with the slow pace of the works (due to the inadequate flow of funds) did not allow the state to 'solve' the unemployment problem of Greece through the building of new infrastructure projects. Unfortunately, reliable unemployment figures do not exist for the period under study. However, it is possible to construe indirectly that the workers employed for these schemes did not prove to be a panacea.[6] They reached a total number of roughly 25,000 only during their peak construction phases which rarely lasted for more than one year. (See Table 1 above).

2. Unfinished Business or the Vicious Circle of Underdevelopment

The previous chapters have demonstrated that foreign portfolio investment in infrastructure took place under difficult circumstances. The planning, financing and construction of schemes were riddled with 'structural weaknesses'. A point of fundamental importance is that the state carried a large part of the responsibility for the high cost and waste involved in infrastructure development. It would be a mistake to view it simply as a passive victim of foreign exploitation. Pointedly, the state before and after stabilization, failed to gain the blind trust of Greece's official supervisors and major institutional investors.

Regarding the exogenous parameters it is obvious that Greece stabilized too late in order to produce the expected results (i.e. a large and easy flow of foreign finance). A notable characteristic of poststabilization borrowing being its Anglocentric nature. Not one penny was raised on the American exchanges and Hambros increased its stronghold over Greece. If ever Greece was a vassal of Britain, this was when it occurred.

Following stabilization foreign portfolio investment in public works was no success story. A fact which has been overlooked in the literature is that after stabilization the inflow of foreign capital for infrastructure development was difficult to secure and it came to a total halt in the spring of 1931-i.e. about eight months before Britain went off the gold standard and one year before the Greek state defaulted on its foreign loans.[7] Indeed, in terms of cause and effect it is apparent that the default was the dependent variable. Greece defaulted after it became obvious that there would be no new loans and not vice versa. Foreign investors had already become reluctant to flood Greece with the capital she demanded. (However, it must be noted that once the default took place it became practicably impossible for the state to raise foreign loan capital).

Seen from this perspective one can argue that even if the world crisis had not occurred, foreign portfolio investment in Greek infrastructure would have been problematic in two respects. The supply of funds would have been inadequate to complete the schemes being built. In addition, the state was too 'backward' to employ in an efficient manner the capital placed at its disposal for public works. Foreign portfolio investment as played out in the Greek context enhanced the dependent status of the country in the world community. Ironically, the framework of agency contracts (as opposed to foreign direct investments) had been followed in the hope that it would diminish the country's external dependence. As described, these loans in the short-term facilitated political consolidation, but they were vested with extensive foreign control. In addition the foreign debt was bloated. Loans that were meant to be 'productive', were later transformed into loans that were not self-liquidating. What a tragic symptom of underdevelopment!

One final question: Did the borrower (i.e the Greek state and the country at large) benefit overall from foreign portfolio investment in public works? In strict financial terms these expensive loans posed a low real burden on the state. Between May 1932 and April 1941 Greece paid only part of the annual interest due. Thereafter, for twenty years it suspended interest payments as well as capital re-payments. When the servicing of the debt was resumed in January 1963 a resheduling agreement was signed which lowered the interest rate charged by one half.[8] The one advantage of the prolonged default was that the real capital value of the principal was much reduced and that ex ante expensive (high cost) loans ended up having a low real burden on the economy. Seen from the wider perspective of economic development, the borrower did not profit from this type of portfolio investment because of the substantial waste involved in the construction of the projects.

In the last analysis it seems to be the case that Greece was caught in a vicious circle. Its underdevelopment impeded it from absorbing and exploiting in an efficient way the flow of foreign capital for infrastructure works. However, it is also the case that the sudden stoppage of the flow of foreign funds helped to perpetuate its economic backwardness and dependence.

References

1. K.N.Kitsikis,"Το Ιδιωτικό Ξένο Κεφάλαιο και η Ανοικοδόμηση" (Private Foreign Capital and Reconstruction), *Η Νέα Οικονομία*, February 1947, pp.191-196.

2. For, example the contractor was not held liable for damages vis a vis the state. The only instance which was an exception was for the reclamation of the Struma valley. However, the context was narrow. The contract read as follows: "The contractor is responsible for damages due to defects in the study if he proceeds with the execution without the same being previously approved by the employer". See: Struma land reclamation contract, article 23, paragraph 4.

3. The general expenses and profit awarded to the contractor were estimated as a percentage of the total costs.

4. For an analysis of this peculiar situation in postwar Greece, see: A.Pepelasis and Pan. A. Yotopoulos, Surplus Labor in Greek Agriculture 1953-1960, (Athens, 1962).

5. Huntsman, *op.cit.*, p.261.

6. According to the Economic Yearbook of Greece for 1929, p.296, the total number of workers employed in the building of the infrastructure projects amounted to 40,000. This figure appears to be overexaggerated. Also, it should be noted that according to the National labour union the total number of unemployed in Greece was 75,000 in 1928, 82,000 in 1929, 127,000 in 1930, 165,000 in 1931, and 210,000 in 1932. Source: Kostis, (1986), *op.cit.*, p.127.

7. It is not clear when exactly during 1931 the embargo on capital exports was imposed. Thus, it has not been possible for us to determine whether the flow of funds towards Greece stopped before the imposition of the general embargo. For the 1931-1932 embargo of the City of London on capital exports, see: R.I.I.A., (1937), p.141.

8. Let it be reminded that Greece defaulted on all her foreign loans and not only those for public works. Thus, the suspension and the subsequent rescheduling applies for all of the foreign debt of the state. Sources: G.Kotitsas, "Τα Ομολογιακά Δάνεια για τους Πρόσφυγες" (The Bond Loans for the Refugees), *Οικονομικός Ταχυδρόμος*, April 26 1973, issue 992, pp.49-50. Also see: Agiopetritis, *op.cit.*, pp.340-342.

GENERAL CONCLUSION TO THE THESIS

Foreign portfolio investment in the twenties contributed to the institutional modernization of Greece: a central bank was established, the refugee settlement programme created an independent 'market-oriented' peasant class and the country's physical infrastructure was expanded. However, this should not disguise the fact that foreign finance did not have a fundamental impact on the course of economic development. The reasons for the failure of the unprecedented post-1922 foreign capital inflow to trigger a take-off for the backward and small Greek economy are diverse and complicated. The tactical blunders made by the state regarding the allocation of funds, the absence of long-run development planning, the greed of foreign investors and the abrupt halt of the flow in capital in 1931 were among the major factors responsible for this 'poor' performance.

The cost of foreign capital inflow in terms of national sovereignity was high. The truth is that throughout the period, the state remained an inept and weak player in the world of international finance. As a consequence, foreign portfolio investment in the public sector was vested with elements of external control and financial power was often exercised for diplomatic ends. In addition, it did not constitute a 'pure' capital transfer from abroad, as Greek banks participated in foreign loan issues (for foreign financiers were often unwilling to take risks on their own) and Greek nationals purchased a large part of the bonds floated overseas.

Throughout, the thesis has uncovered the complex institutional framework through which foreign funds flowed. Foreign finance was based on an elaborate power structure involving numerous alliances and intrigues among domestic and international actors. It has been shown that neither the state nor 'The foreign factor' were homogeneous. The latter was characterized by national rivalries; France resented the rise of British influence in the sphere of international monetary affairs and Britain tried to block the penetration of American business interests in Greece. (Book II, pp.240-245,335-341). In addition , the 'foreign factor' operated at two distinct levels: the international capital market and formal supervision. Nevertheless, the two levels were tightly intertwined. Overall, formal supervision was everpresent. On the one hand, the I.F.C. and the League interfered with the working of the market providing the guidelines within which the bankers and contractors would function. On the other hand, they used their power to facilitate or block Greece's access to the markets. (A recurrent theme throughout the thesis being the imposition of embargoes and the repeated refusal of the I.F.C. to supervise loans which were not raised under the auspices of the League of Nations.). To complicate matters even further, there were internal factions among the various official bodies. The conflicts of 'interest' that developed between the I.F.C. and the League of Nations have been charted. In addition, it has been shown that the Foreign Office, the Bank of England and the British Treasury often disagreed although they appeared to work together. Moreover, foreign business competitors coalesced with rival local interests. The battle between the Hambros -N.B.G. group and the Ulen- Bank of Athens consortium has been described in detail. Therefore it is not possible to speak of 'A foreign factor', although one country, Britain, established a hegemonic position in Greece. It is worth repeating that Hambros almost monopolized the flow of foreign funds, that the I.F.C was an outpost of the British Treasury on Greek soil, and that the League stabilization scheme was inspired by the Bank of England. It has been demonstrated that the rise of British hegemony was related to a combination of factors among which the more important were the post WWI loss of French interest in Greek investments and the internal weaknesses of the Greek state.

Book I reveals that though the state was vulnerable vis-a-vis the Powers, it was not a passive pawn of foreign interests. The aggessive tactics used by Norman to establish a foothold in Greece have been delineated. Domestic resistances to the new realities introduced by League supervision have been described. Let us remind the reader that Athens initially did not want to espouse 'monetary orthodoxy' and the free convertibility of the drachma. Moreover, pegging was prefered to legal stabilization and central banking was seen as an anomaly. Pointedly, the state toyed with the League loans cum schemes up to the final hour and accepted them as a solution of last resort. Book I also uncovers the double standards and code of behavior of financial 'imperialism'. Notably, Britain was certainly unable (and probably unwilling) to adjust the archaic institution of international supervision (i.e. the I.F.C.) to the new framework brought about by the operation of the gold exchange standard in Greece. (See: pp.178-184). This is in stark contrast to the insistence upon radical reforms within Greece. Finally, in the conclusion to Book I we saw that Greece was not a unique case. If anything the elusive stability of the Greek experiment demonstrates that the mechanism which was set up after WWI to enhance the supremacy of the pound sterling imposed heavy costs on the weaker nations.

Throughout Book II the peripheral status of Greece in the world capital market has been underscored. It has been shown that the independent access of the state to the markets was limited (by independent, meaning the ability to raise loans without the support of the League of Nations and the I.F.C.). The unsuccesfull efforts to escape from the domination of Hambros have been described. Overall an indecisive state has emerged; often chauvinistic, military and social considerations impeded it from adopting strict economic criteria regarding infrastructure development.

In more than one way this has been a story of mutual prejudices, suspicions and frustrations compounded by the existence of a communication 'gap'. Foreign entrepreneurs and Greeks differed in their perception regarding the management of concessions and rationalization in industry. A strong divide also emerged between the Greek authorities and formal supervision on a number of policy issues such as: the recompensation of war victims, the country's legitimate minimum defence requirements, the optimum level of monetary circulation and foreign borrowing for public works. This has also been a story of 'failed dreams'. At the end of the day, the government was displeased because foreign finance did not suffice to complete its public works 'programme'. Foreign supervisors were disappointed because the state resorted 'too freely' to the international capital market. Finally, the foreign bondholders suffered the blow of the 1932 default. The bitter memories lingered on for many years. The Greek people's mistrust towards the west was inflamed and it would take Greece more than thirty years to gain once again the trust of the world capital markets.

Finally, a central theme of the thesis has been that Greece experienced missed opportunities in both a chronological and structural sense. What is important is that accident and exogenous factors were not the sole or original causes of this phenomenon. Book I showed that the state was unable, and certainly unwilling, to settle its war debts and adjust to the principles of 'sound finance' at an earlier date. In Book II it was demonstrated that foreign capital flows suffered from a problem of absorption in that there was waste. The final chapters of Book I and Book II have uncovered that due to the cultural variable and the misguided policies of the state the flow of funds and foreign direct investments would have been 'anaemic' even if the world crisis had not occurred. Also, it has been demonstrated that domestic political and economic considerations influenced in an important way state policy towards foreign capital. If there is a moral to be drawn it is that a linear causation analysis is not appropriate and that endogenous parameters are at least as important as 'The foreign factor' in explaining the dependent formation of Greece. This has never been a popular notion.

APPENDICES

APPENDIX 1

Table 1

State Expenditure and Foreign Borrowing
(in million £)

Year	(A) State Expenditure	(B) Nominal Value of Foreign Loans	(B) as a % of (A)
1922	20,3	-	-
1923	16,7	1,7	10
1924	22,3	12,3	55
1925	21,8	6,4	30
1926	22,5	1	4.4
1927	20,8	-	-
1928	25,2	11,5	45.6
1929	48,8	2,5	5
1930	29,6	1	3
1931	31,1	4,6	15
1932	19	-	-
Total 1922-1932	255,6	41	16

Compiled from: G. Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp.493-528.
Also, G. Haritakis (ed.), Economic Yearbook for 1939, (Athens, 1940), Part II, p.170.

Table 2a

(in million £)

Year	(A) Exports	(B) Remittances*	(C) Nominal Value of Loans	(C) as a % of (A)+(B)
1922	14,9	4,9	-	-
1923	18,5	6,7	1,7	7
1924	13,2	8,6	12,3	56.5
1925	14,5	7,4	6,4	29
1926	14	7,3	1	5
1927	16,4	6,9	-	-
1928	16,9	6,4	11,5	49
1929	18,5	7,8	2,5	9.5
1930	15,9	8,3	1	5
1931	11,9	7,1	4,6	24.2
1932	10	2,8	-	-
Total 1922-1932	164,7	74,2	41	17

*The figures for the remmitances are presented in gold pounds-the divergence between gold and paper pounds becomes noticable after 1930.

Compiled from: G. Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp.493-528. Also G. Haritakis (ed.), Economic Yearbook for 1939, (Athens, 1940), Part II, p.39; Also, B.G./T.A., File 23: League of Nations, Financial Committee, Report to the Council on Greece, Extraordinary Session held in London, June 6-14th, 1933.

Table 2b

Foreign Capital Inflow and the Trade Gap
(in million £)

Year	(A) Trade Gap	(B) Nominal Value of Foreign Loans	(B) as a % of (A)
1922	4,1	-	-
1923	11,8	1,7	14.5
1924	19,3	12,3	64
1925	18,1	6,4	35
1926	11,7	1	8.5
1927	17,8	-	-
1928	17,6	11,5	65
1929	16,8	2,5	15
1930	12,1	1	8
1931	12,9	4,6	35.5
1932	6,5	-	-
Total 1922-1932	148,7	41	28

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens, 1930), p.199. Also, G. Haritakis (ed.), Economic Yearbook of Greece for 1932, (Athens, 1933), pp.493-528. Also, G.Haritakis (ed.), Economic Yearbook of Greece for 1939, (Athens, 1940), Part I, p.39.

Table 3

Foreign loan inflow and annual service of the foreign debt* 1922-1932
(in thousand drs.)

Year	Inflow	Service	Net flow
1922-1923	2,665,000	725,000	1,940,000
1923-1924	250,000	1,563,000	-1,313,000
1924-1925	650,000	1,769,000	-1,119,000
1925-1926	2,005,000	1,933,000	-72,000
1926-1927	2,202,000	2,456,000	-254,000
1927-1928	60,000	2,237,000	-2,177,000
1928-1929	1,219,000	3,194,000	-1,975,000
1929-1930	8,779,000	3,355,000	-5,424,000
1930-1931	125,000	3,725,000	-3,600,000
1931-1932	200,000	3,653,000	-3,453,000
Grand Total 1922-1932	18,155,000	24,610,000	-6,455,000

*The figures include foreign borrowing of the private and public sectors.

Source: G. Hristopoulos (ed.), History of the Greek Nation, Vol.IE, p.337.

Table 4

Greece's External Private and Public Debt in 1932
(in million U.S. $)

I. Loans		
i. Long-term Loans		
Public foreign debt		371,8
Loans for communication works		3,4
Harbour and shipping loan		2,4
Industrial loans	15,9	21,7
Total long-term		393,5
ii. Medium-term loans		
Loans to mortgage banks		16,4
iii. Short-term Loans		
Foreign public debt		11,0
Loans to banks	15,0	
Loans to merchants	28,2	
Loans to monopolies	7,5	50,7
Total short-term		61,7
Total Loans		471,6
II. Investments in Greece by Foreigners		
Foreign enterprises	18,2	
Participation of foreigners in Greek enterprises	15,1	
Total	33,3	
Miscellaneous, not statistically determined		10,0
Grand Total		514,9*

*This figure amounted roughly to £125,000,000.

Source: B.G./T.A., File 23: League of Nations, Financial Committee, Report to the Council on Greece, Extraordinary Session held in London, June 6-14th 1933.

Table 4a

Breakdown of Foreign Public Debt in 1932

Foreign public loans	74%
Foreign loans of public bodies*	6%
Foreign loans to banks	3%
Foreign loans to merchants and industry	8.5%
Foreign investments in Greece in foreign enterprises	3.5%
Participation of foreigners in Greek enterprises	3%
Miscellaneous	2%
Total	100%

*By public bodies we mean non central government institutions such as municipalities, port funds, the national mortgage bank, and the monopolies.

Compiled from data in Table 4 above.

APPENDIX 2

The Budget (1900-1927): Tables 1a, 1b, 1c

Table 1a

Year	(I) Ordinary Revenues (In mil. drs.)	(II) Total Expences (In mil. drs.)	(III) Balance	(III) as a % of (I)
1900	103	110	-7	7
1901	108.5	114	-6.5	6
1902	108.5	124.5	-16	15
1903	109	116	-7	6.4
1904	110	116	-6	5.4
1905	111	116	-5	4.5
1906	121	121.5	-0.5	0.4
1907	123	132	-9	7
1908	118	134	-16	13.5
1909	117	137	-20	17
1910	129.5	140.5	-11	8.5
1911	138	181	-43	31
1912	127	208	-81	64
1913	141	261	-120	85
1914	208	482	-274	132
1915	212	376	-164	78
1916	216	215	-1	0.5
1917	370	317	-53	14.3
1918	365.5	1,446	- 1,080.5	295.5
1919	481	1,354	-873	181.5
1920	633	1,687	- 1,054	166.5
1921	850	2,258	- 1,408	165.6
1922	1,710	3,383	- 1,673	97.8
1923	3,284	4,950	- 1,666	50.7
1924	4,721	5,510	-789	16.7
1925	5,564	6,843	- 1,279	30
1926	7,025	8,710	- 1,685	24
1927	8,807	7,771	+1,036	12

Source: G. Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens,1930), pp.274-275.

Table 1b

Government Expenditure and Cost of Living Index
1920=100

Year	Government Expenditure	Cost of Living
1920	100	100
1921	134	113
1922	270	181
1923	519	336
1924	746	351
1925	878	403
1926	1109	465
1927	1391	511

Compiled from: G. Haritakis (ed.), Economic Yearbook of Greece for 1929, (Athens, 1930), pp.32,274-275.

Table 1c

Military Expenditure
Allocation of Budget Expenditure to the Military (army, navy)

1914	37.9%
1920-21	51%
1921-22	56%
1922-23	59%
1923-24	39%
1924-25	31%
1925-26	29%
1926-27	28%
1927-28	3%*

*This figure has been derived by extrapolation.

Compiled from: B.G./T.A., Document 98/72 'Memorandum prepared by Touderos on June 14 1926;. Also from: P.Dertilis, La Reconstruction Financiere de la Grece et la Societe des Nations, (Paris, 1929), p.46.

Monetary Circulation: Table 2

Table 2

Total Circulation of Banknotes Prior to Stabilization

Year	(thousand drs.)	Index 1918=100
1918	1,304,268	100
1919	1,412,220	108
1920	1,508,366	116
1921	2,161,183	166
1922	3,149,446	242
1923	4,681,200	359
1924	4,865,924	373
1925	5,339,249	409
1926	4,864,640	373
1927	4,966,258	380

Source: Compiled from Bank of Greece, The First Fifty Years of the Bank of Greece1928-1978, (Athens, 1978), p.28; and also, X. Zolotas, Monetary and Exchange Phenomena in Greece, 1910-1927, (Athens, 1928), Vol.A, p.225.

The Exchange Rate: Tables 3a, 3b

Table 3a

Average Annual Price of Foreign Exchange
(selling price in drs.)

Year	£ Sterling	U.S.A.$
1914	25,2	5,1
1918	24,7	5,8
1919	24,5	5,5
1920	34,2	9,5
1921	70,9	18,3
1922	166,5	37,1
1923	296,7	64
1924	247,3	56
1925	312,7	64,7
1926	386,5	79,5
1927	368,5	79,5
1928	372,9	76,6
1929	375	77
1930	375	77
1931	352,8	77,4
1932	472,9	133,7

Compiled from: G.Haritakis (ed.), The Economic Yearbook of Greece for 1930, (Athens, 1931), p.251; also, G.Haritakis (ed), The Economic Yearbook for 1939, (Athens, 1940), Part II, p.202.

Table 3b

Index of Annual Fluctuations in the Price of the £ sterling
(Assuming that the Annual Average Price = 100)

Year	Maximum Price	Minimum Price
1914	100.3	99.6
1918	101.2	99.6
1919	103.6	91
1920	138	89.8
1921	141	66.2
1922	246.2	58.2
1923	147	52.3
1924	120.6	81.6
1925	125.4	78.1
1926	117	81.7
1927	104.5	96.6
1928	100.6	98.3

Source: same as Table 3a.

APPENDIX 3

Table 1

Structural Disequilibrium of the External Sector
(Balance of Payments) during the Stabilization Phase (1929-1932)[1]
(Figures for 1929-1930 in Thousand Gold Sterling,
1931-1932 in Thousand Gold Francs - Current Prices)[2]

	1929	1930	1931	1932
Imports	35400	28935	588377	341861
Exports	18717	15782	280166	183334
Trade balance	-16683	-13153	-308211	-158527
Net invisibles total[3]:	+7355	+5027	+190475	+98855
i. Emigrant remittances(+)	7815	8359	177100	72520
ii. Shipping(+)	955	31250	31250	22776
iii. Interest and profits of Greek capital abroad(+)	4682	3795	138075	50788
iv. Interest and profits on foreign capital in Greece(-)	500	650	18950	22779
v. Service of National debt(-)	4600	4776	124000	30598
Current balance	-9328	-8126	-117736	-59672
Capital movements net[4]:	+9328	+8126	+248523	+59672
Balancing item	not given	not given	-130787	not given

[1]Reliable data do not exist for 1928.
[2]Apparently because the Bank of Greece reported all foreign exchange transactions in terms of gold sterling(1929-1931) and then in gold francs from 1932 onwards "it made sense" for the official statistics to present the remaining data relating to the balance of payments in a "similar manner".
[3]Of which(+inflow and - outflow.
[4]Including changes in foreign exchange reserves and balances from bilateral clearing trade agreements Balancing item

Source: Freris, The Greek Economy in the Twentieth Century, (London,1986), p.83. The author has based the information provided in this table from "completely reworked and cross checked data from the Economic Yearbooks of Greece for 1931 and 1938.

Table 2

The Trade Gap during the Stabilization Phase: 1928-1932
Exports as a % of the Value of Imports

1928	51
1929	52
1930	57
1931	48
1932	58

Compiled from: G.Haritakis (ed.), Economic Yearbook of Greece for 1939, (Athens,1940), Part II, p.15.

Table 3

Budget Supluses during the Term of Free Convertibility
(in drs.)

Fiscal Years	
1928-1929	1,130,200,000
1929-1930	404,200,000
1930-1931	701,500,000
1931-1932*	432,600,000

*The figure for 1931-1932 is the provisional figure given by the League of Nations in 1933.

Source:B.G./T.A., File 23: League of Nations, Financial Committee, Report to the Council on Greece, Extraordinary Session held in London, June 6-14th 1933.

Table 4

Foreign Exchange Reserves Estimated
as a % of the Value of Greece's Annual Imports (1928-1932)

1928	34	or the equivalent to four months of imports
1929	23.4	or the equivalent to almost three months of imports
1930	28.5	or the equivalent to three and a half months of imports
1931	13.7	or the equivalent to one and a half months of imports
1932	11.4	or the equivalent to one and a half months of imports

Compiled from: Table 3 and G.Haritakis (ed.), Economic Yearbook of Greece for 1939, (Athens,1940), Part II, pp.15,200.

APPENDIX 4

Table 1

Composition of Deposits of the National Bank of Greece
(in million drs.)

Year	Sight Deposits	Saving Deposits	Time Saving Deposits	Total
1920	0,500	138	565	1,191
1925	1,421	256	956	2,634
1928	3,522	994	762	5,278
1930	3,691	1,712	1,460	6,864
1934	4,555	2,794	2,445	9,794
1938	5,605	2,853	2,344	10,803

Source: E.P. Stassinopoulos, The History of the National Bank of Greece 1841-1966, Athens, 1968, pp.134-135 also, G. Haritakis (ed.), Economic Yearbook of Greece for 1938, (Athens 1939)

Table 2

Sectoral Breakdown of Loans Granted to Greek Industry
By March 1940

Industries	National Bank of Greece(1)	Hellenic and General Trust Ltd.
Chemical	35 %	3.1 %
Textiles	24 %	11.8 %
Food	17 %	22.0 %
Miscellaneus	24 %	
Total amount which industry owed to	£9,308,521(2)	£362,530(3)

(1)The National Bank did not segregate loans by category of borrower in the statistics it provided for the annual reports. Thus, the only information we have for the amount it had lent to Greek industry before World War II is from a report prepared by Industrial Credit Department of the National Department which stated that on March 31, 1940, the total capital of the National Bank tied up in Greel industry amounted to 5,045,770,000 drs. or !9,308,521. Thus, the amount of capital which Greek industry owed to the National Bank was about 25 times the amount owed to the Hellenic and General Trust Ltd.
(2)March 31, 1940
(3)January 31, 1940

Source: Anastassopoulos, *op.cit.*, Vol. 3, p.1581. Also, NBG/H.A., XXII Banks, IE Banking Institutions File 38: Hellenic and General Trust Ltd, Balance Sheet of Jan.31, 1940.

Table 3

Growth of Output in Selected Branches or Greek Industry
1928-1938

Year	Electricity Thous. khv	Cement Thous. tons	Alcohol Thous. tons	Wine Thous. tons	Cotton spinning Thous. meters	Cotton weaving Thous. meters
1928	60	145	11.5	17	7.9	16
1930	100	180	11	13	9.6	22
1932	120	196	12	9	10	23
1934	140	248	13	10	14	29
1936	170	276	11.4	8	15	27
1938	230	308	17	15	15.7	27.7

Compiled from: G. Haritakis (ed.), Economic Yearbook of Greece for 1939, (Athens, 1940), pp.188-265.

APPENDIX 5

Description of Works Assigned to Foundation Co. as Stipulated in the Contract and their Materialization in Reality

Schedule A

I. Survey, preparation of plans and estimates.

II. Drainage of lakes Ardzan, Amatovo. Estimated area to be reclaimed = 100,000 stremmas. Estimated cost = $600,000; and estimated time of completion = 26 months after the ratification of the contract[1]. It is not possible to ascertain exactly how much this part of the project actually cost. It was completed on October 31 1930! Less than half of the drained land proved cultivable.

Schedule B

I. Drainage of the Yenidge swamp. It was to be completed by October 1932. In actual fact it was completed in December 1937. As a result 70,000 stremmas of land were offered for cultivation.[2]

II. River training works:

A. The Axios, Gallikos, and Aliakmon rivers to be trained inorder to prevent flooding.

B. The railway bridges over the above rivers and the road bridge over the Loudias river to be strengthened. Also the river waters to be trained through the bridges.

It was estimated that with these anti flooding river training works, together with the drainage of the Yenidge swamp 540,000 stremmas would be reclaimed, and 600,000 stremmas would be protected from periodical floodings. It was estimated that these works would cost $15,750,000 and would be completed by 1932[1]. But, in actual fact, the river training works were completed in the 1940's at an unkown total cost.

Schedule C

I. New Channel for the Axios river

About 3 klms from the Monastir railway bridge the Axios to be diverted into its old channel and to discharge at the gulf opposite the Great Kabournou. t was estimated that with this project 80,000 stremmas would be protected from flooding. The estimated cost was $10,220,000 and it was estimated that it would be completed by 1932[1]. But, actually it began after 1932! Its cost is not known.

[1]Because the estimates in the contract are different from those made by the government sources at later dates compare the above figures with those of Table 10.

[2]See: N.B.G./H.A., File 10, J.W. Doty to the Hellenic Construction Co. December 28 1938.

Compiled from the contract, Schedules: A,B,C. It should be noted that at the time the contract was signed it was assumed that all the land made available would be cultivable. However, a few years later this was not recognized as being the case.

APPENDIX 6

The $7,500,000 Speyer Advance		
Nominal Capital		$7,500,000
Net Produce		$7,479,750
	Utilization of Net Produce	
i.	National road scheme	$ 2,854,115
ii.	Vardar valley reclamation	$ 870,000
iii.	Reclamation of Serres-Drama plains	$ 481,000
iv.	Study prepared by H.Boot& Sons	$ 32,838
v.	Towards the dowry of the newly founded Agricultural Bank of Greece	$ 3,250,975
vi.	Blocked Funds*	$ 260,820
Total		$ 7,479,750

The £900,000 Advance Provided by the National Bank of Greece		
	I) The £600,000 Tranche	
Nominal Capital		£600,000
Net Produce		£600,000
	Utilization of Net Produce	
i.	National road scheme	£304,796
ii.	Vardar valley reclamation	£ 92,505
iii.	Reclamation of Serres-Drama plains	£161,448
iv.	Study prepared by H.Boot& Sons	£ 6,750
v.	Interest for one year retained by the Bank	£ 34,500
Total		£600,000
	II) The £300,000 Tranche	
Nominal Capital		£300,000
Net Produce		£300,000
	Utilization of Net Produce	
i.	National road scheme	£106,000
ii.	Vardar valley reclamation	£ 70,000
iii.	Reclamation of Serres-Drama plains	£100,000
iv.	Study prepared by H.Boot& Sons	£ 6,750
v.	Interest for one year retained by the Bank	£ 17,250
Total		£300,000

*Deposit blocked for the stamp duty for the eventual obligations of the 5% 1914 loan.

Source: The above information has been obtained from: G.L.H.A./D.A.: File 37, Document 28, titled:: 'Capitaux disposes hors du budget'undated.

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