The Politics of Reconstruction
Foreign Aid and State Authority in Greece, 1945-1947

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As the Second World War drew to a close, it was evident that Greece would have to rely on foreign aid for its survival. Already during the Nazi occupation, the city dwellers were dependent on International Red Cross food imports. After a disastrous famine in the winter of 1941-1942 that claimed the lives of 45,000 people in Athens and Piraeus, the Allies lifted the naval blockade and, from September 1942 until the liberation of the country, 15,000 tons of grain and 3,000 tons of other foodstuffs were unloaded in Greek ports every month. In November 1943, the governor of the Bank of Greece, Kyriakos Varvaressos, prepared a memorandum on behalf of the Greek government in exile for the newly established United Nations Relief and Rehabilitation Administration (UNRRA), in which he outlined the structural economic problems of Greece and the havoc that Nazi occupation had wrought. He foresaw that ‘a large section of the Greek population would have to rely entirely on imports for the satisfaction of its needs’.

This is what exactly happened with UNRRA aid in the immediate post-war years. In fact, it was not only the population that was dependent on foreign relief aid, but also the state that was dependent on foreign economic assistance. Greece was among the major recipients of foreign aid after the end of the Second World War. In 1952, Varvaressos submitted another report to the Greek government, in which he estimated that post-war economic aid to Greece had reached $2 billion. Despite this enormous amount, he concluded that Greece ‘is and will remain a poor country with limited economic potentialities’ and singled out the economic dependence of Greece on US economic aid as a major source of concern.

In this chapter, I will examine the economic and social problems that Greece faced after the end of the war in order to address two questions. The first concerns the relation between relief aid and the reconstitution of government authority, i.e. to what extent did the distribution of relief

1 UNRRA Archives, PAG 4/4.1.9, Historian subject files, Memorandum of the Greek Delegation to the United Nations Relief and Rehabilitation Administration, November 1943.
correspond to the needs of the population or to the ‘politics of food’ that the government pursued? While there is a large body of literature on the Marshall Plan, much less has been written about UNRRA. Despite the humanitarian character of UNRRA operations, its political dimensions were equally important and Greece is a case in point. The second question concerns the relation between economic aid and foreign intervention. In the post-war period, the British and the Americans provided substantial economic aid to the Greek government to avoid an economic collapse and to defeat the communists on the battlefields of the civil war. At the same time, with the encouragement of the Greek government, they got heavily involved in rebuilding the Greek state and in domestic politics. The intervention of major powers in less developed countries is usually explained in terms such as ‘imperialism’ or ‘dependence’. However, I will argue that the American intervention in Greece, despite its unique breadth, was part of a larger, transnational reconfiguration of power relations and the emergence of the United States as a global, hegemonic power and a new kind of empire.

UNRRA

After the Battle of Stalingrad, which marked a decisive turn in the Second World War, the Allies began to draw up plans for liberated Europe. There were serious concerns that the end of hostilities would be the beginning of a new period of instability due to the devastation wrought by war and occupation: famine and disease, homeless and displaced persons, poverty and unemployment, ethnic conflicts and civil strife – all presented immediate dangers and intractable problems. After winning the war, ‘freedom from want’ was of utmost importance to winning the peace. The talks on establishing an international relief organization began in March 1943 and a few months later, in November 1943, forty-four countries signed the treaty for the establishment of the United Nations Relief and Rehabilitation Administration (UNRRA). From the outset, it was an international organization funded and led by the United States. The three directors of UNRRA were Americans (Herbert Lehman, Fiorello La Guardia and Lowell W. Rooks), as were most of its staff; the United States covered two-thirds of UNRRA’s operating expenses; 90 per cent of the food and other supplies which were distributed by UNRRA came from the United States.\(^3\) Despite

its relatively early establishment, UNRRA was very slow in getting started. The war was still raging and the Allies wanted to ensure that the available supplies (especially food and transport) would first serve the troops on the front line. Moreover, not all countries occupied or devastated by the war were to receive aid. UNRRA's charter stipulated that, in order to be eligible, countries had to fulfil two criteria: first, to have been occupied by the Axis powers during the war and, second, not to have sufficient financial means after the war to purchase supplies on the market. This left Western Europe as well as Germany and Italy outside the scope of UNRRA aid.4 This policy soon changed, but then a new problem appeared. The requirements of the countries exceeded UNRRA's financial capacity, meaning 'the programmes had gradually to be scaled down until they came within the limits of budgetary resources'.5 All these are indicative of the great improvisation that the UNRRA experiment entailed and explain the delays in commencing the relief operations that, finally, began in the spring of 1945. Thus, in the winter of 1944, the situation in the newly liberated countries of Western Europe was tragic. People were in desperate need of food, clothing and shelter, but UNRRA was absent. In a debate in the British House of Lords, speakers demanded to know what was going on with UNRRA. The government spokesman admitted that in December 1944, only two countries received UNRRA aid – Greece and Italy.6 This was inaccurate – only Italy received relief aid at the time. In Greece, UNRRA operations had, to a large extent, ceased.

In September 1944 Greece's application to UNRRA was approved and on 23 October 1944 (two weeks after the withdrawal of German troops from Athens) the first UNRRA members arrived in the country. After three and a half years of German, Italian and Bulgarian occupation, Greece was in ruins. More than 1,200,000 people were homeless, grain production had fallen by 40 per cent, three-quarters of the merchant fleet was destroyed, most of the facilities at the port of Piraeus were severely damaged, and not a single railway line was left intact.7 Alongside economic havoc and human misery came a violent political conflict, as bitter fighting between

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the communist-led resistance (National Liberation Front, EAM) and Nazi collaborators spread to many parts of the country. The government in exile returned to Greece in mid-October 1944, accompanied by British troops. Following an agreement between the Greek and British governments, the British military commander was given control of the import and distribution of relief to Greece. On 3 December 1944, a civil war between EAM, on the one hand, and government forces (National Guard) supported by the British troops, on the other, broke out in the capital. On 10 December, Laird Archer, chief of the UNRRA mission to Greece, stated in a memorandum sent to the British military that ‘we recognize that there is an armed insurrection against the Greek government by a political group; AFHQ [Allied Force Headquarters], for whom we are acting as an agent, is taking steps to quell this insurrection by force. We, therefore, as UNRRA are unavoidably associated with a regime of force and discrimination’. He concluded by asking the mission to be ‘dissociated from the British military’.8 The British response was to evacuate most of the staff to Cairo, and UNRRA operations came to a standstill. The distribution of relief aid to the Athenians stopped, but at the same time 140,000 rations were brought into Athens in order to feed the police, the National Guard and the Greek personnel that worked for the British military in Athens. The excuse for the cessation of relief aid was that the lives of UNRRA staff might be in danger because of the hostilities. However, the distribution of relief stopped even in provinces where no fighting occurred. Again there was an exception: the British-controlled areas continued to receive relief. While the population desperately needed UNRRA food and clothing, the distribution depended on who was in control in a particular area. EAM accused the British and the government of using relief aid for political ends. The delays in distribution, it claimed, were due to the British, who hoped in this way to turn the people against the Left.9

The distribution of relief resumed only after the defeat of the communists in Athens. On 1 March 1945, an agreement was signed between the Greek government and UNRRA, according to which the government (and not the administration) would assume full responsibility for relief aid on 1 April 1945. This was in line with the general policy of UNRRA throughout Europe at the time, because it did not want to be accused of interfering in domestic affairs. While, nominally, UNRRA only had an advisory role, it

8 UNRRA Archives, PAG 4/4.1.9, Historian subject files, Chief of UNRRA Greece Mission to General Hughes and General Sadler, 10 December 1944.
at the same time assumed an active role, owing to the failings of the Greek government. As George Woodbridge, the chief historian of UNRRA, later wrote, ‘the mission prepared and wrote bills to be enacted into law by the government; it arranged for the appointment and selection of Government officials; it planned and prepared, in cooperation with the Government, the import programs; it determined where ships should be unloaded; in these and in many other respects it acted for the Government’.10 A joint policy committee was formed on 1 April 1945, comprising representatives of the Greek government, UNRRA and the British embassy. It is noteworthy that the United States, despite repeated calls from the British and UNRRA, refused to participate in the committee because, as Roosevelt reminded Churchill, that would violate the Yalta agreement on tripartite action in the liberated countries.11 The Joint Policy Committee had four subcommittees (for wages and prices, transport, rationing, and welfare), while UNRRA personnel participated in committees that covered a broad range of relief activities, such as the distribution of food, clothing, and medicine, the import of fuel, fertilizers and machinery, and the repair of roads, bridges and schools. Thus, the UNRRA mission in Greece ‘grew into something approaching a parallel government’.12 One of the major problems that the UNRRA mission addressed concerned refugees and displaced persons (DPs). When the war ended, UNRRA officials estimated that there were 85,000 Greek DPs in Germany, the Middle East and elsewhere, who had to return to Greece, and 243,000 internal refugees who had to be repatriated. By October 1945, 44,715 DPs had been repatriated, but the problem of internal refugees remained pressing as 120,000 persons were still awaiting repatriation to their hometowns and villages. UNRRA operated twelve assembly centres and transit camps and the repatriation programme was one of its major achievements in Greece.13

The aid that Greece received was, by any standards, massive and the government relied exclusively on this aid to meet the most immediate and urgent needs. From this viewpoint, Greece was more lucky than other

12 Hitchcock, Liberation, op. cit., p. 229.
13 UNRRA Archives, PAG 4/3.0.12.2.1, File 453.3 Displaced Persons – Refugee Movements, Supplementary information on DP and refugee moves, 25 July 1945, PAG 4/3.0.12.2.1, File 455.6 Ministry of Repatriation, Miss Eccless to Mr. H.B. White, 27 December 1945.
devastated countries; by March 1946, UNRRA had shipped 1.3 million tons of foodstuffs to Greece, whereas Yugoslavia had received 944,000 tons and Poland 278,000 tons. Moreover, UNRRA provided Greece with 1,452 tractors, 5,888 trucks and cars, 20,789 livestock animals, and 91,974 tons of fertilizer, among others. However, in other areas the accomplishments of UNRRA were less impressive. The aid helped the population to survive in the first critical months after the war, but the improvement of living standards was not equivalent to the amount of aid provided. In March 1946, Buell Maben, the mission chief, acknowledged that ‘the degree of improvement in the economic situation of the country and the living conditions of the people is less that might have logically been expected’.

The government became the target of attacks in the press regarding the way it was handling the relief effort, while the offices of the UNRRA mission in Athens were flooded with reports and letters about the deteriorating living conditions in the countryside. Even the nutritional needs of the population were, in some regions, hardly covered. Despite the thousands of tons of wheat that UNRRA imported every month and the rapid recovery of wheat production, the mission asked for an increase in wheat imports into Greece. A report from a field trip to the villages in the region of Drama in northern Greece highlighted several problems: the large numbers of indigents, high cost of rations, unfair distribution of clothing, skin diseases among schoolchildren, many orphans without any special care, no shelters for families whose houses were burnt during the war. One of the officers concluded that, unless the ration cost was lowered, ‘immediately starvation will result in this area’.

Partly the problem was due to the general handicaps of the relief organization itself: poor planning and incompetent personnel. For instance, on the islands of the Cyclades the welfare procedures took several months because of delays in supplying the necessary administrative material and the lack of the necessary employees. However, the main problem was the general economic policy of the government regarding relief supplies. Instead

15 United Nations Relief and Rehabilitation Administration, UNRRA at Work in Greece (Athens: Stephanopoulos, 1946), pp. 28-29.
16 UNRRA Archives, PAG 4/3.0.12.0.2.1, File Policy General, Buell Maben to E. Tsouderos, Deputy Prime Minister, 1 March 1946.
of introducing price controls and rationing, the government followed a double-standard policy: imported wheat was sold at very low, fixed prices, while domestic produce was sold on the free market. The result was that the peasants had to sell their produce to merchants at very low prices, something that turned them against the government and UNRRA. This economic policy had a beneficiary, and that was the urban population who had access to food supplies free of charge or at very low prices. On the other hand, those who were less favoured were the inhabitants of mountain villages who had to pay in advance for their rations and also for the cost of transporting them. The result of this policy, as one member of the UNRRA mission noted, was that ‘the peasant population, which on the whole is poorer than the urban, is paying for the ration a considerable higher price than the inhabitants of larger towns’.\textsuperscript{19}

So far, we have seen two aspects of discrimination in the relief distribution policy. First, the urban population was prioritized over the peasants, and, second, the towns in the plains were prioritized over the mountain villages. In this way the government sought to gain the support of the urban population, and to secure the loyalty of civil servants, and the state apparatus in general, in a period of growing political tension. The third aspect of discrimination was explicitly political. Families or even whole villages that during the occupation supported the leftist guerrillas in their fight against the Nazis were simply excluded from the distribution of relief. The same happened with the Slav Macedonians, an ethnic minority in northern Greece that, to a large extent, had sided with the Left. Already in April 1945, when the government assumed responsibility for the distribution of aid, there were complaints that the local authorities were ‘using UNRRA supplies as a political weapon’.\textsuperscript{20} The political discrimination in the distribution of relief supplies was part of a broader campaign on the part of the government and paramilitary bands against the leftist resistance and the Communist Party (KKE). Between February 1945 and February 1946, more than 50,000 people were arrested and 1,200 people were killed in a wave of so-called ‘white terror’. In 1945, there were about 150-200 paramilitary bands in the countryside that terrorized civilians, raped women, looted villages and, as a consequence, many leftists took to the mountains. In the spring of 1946, the first armed leftist bands were formed in the mountains

\textsuperscript{19} UNRRA Archives, PAG 4/3.0.12.1.41, File Food division – Food supplies, Regional Director E Region to Chief of Mission, 24 September 1945.

\textsuperscript{20} UNRRA Archives, PAG 4/3.0.12.1.69, File Region EG, Field Correspondence, Regional Director to Chief of Mission, 17 April 1945.
of central Greece. The activities of leftist guerrillas became an excuse for the government to stop the distribution of relief in entire areas due to ‘security reasons’ – the guerrillas might raid the villages in order to seize relief supplies. The halting of relief distribution was a way to put pressure on the populations in the mountain areas to leave their villages so that the leftist guerrillas would lose their networks of supplies and sources of recruitment. By that time, UNRRA operations in Greece, as in the rest of the world, had been curtailed. Despite the global food crisis in 1946, which required the increase of food aid to Europe, the United States government in November 1946 announced that it had decided to stop financing the organization. As the Cold War was beginning, the priorities of the United States were changing. American officials had realized that the authorities in the receiving countries were using the relief to gain political power and popular support, something that in countries like Yugoslavia, Poland or Czechoslovakia might be to the advantage of communists and the Soviets. Moreover, the next task, the reconstruction of Europe, was too important to be left to an international organization. In 1947, while they were making plans for what would later be the Marshall Plan, American officials referred to UNRRA in terms of a negative experiment: ‘We must avoid getting into another UNRRA. The United States must run this show’, one wrote.

In Search of Foreign Aid, Part One: The British

UNRRA aid helped the population to survive, but little was done in the other direction, that of the economic reconstruction of the country. As the American Economic Mission to Greece pointed out in 1947, ‘in spite of $700 million in foreign assistance, Greece during the past two years has merely managed to survive. [...] Economic conditions have improved but little over those prevailing at the time when the Nazi forces were expelled from the

country. In fact, the economic situation had deteriorated since the liberation as a result of the combination of huge public deficits and monetary instability. The government was unable to balance a budget of growing expenditure and very low receipts and unwilling to impose a high income tax or a tax on wartime profits. On the other hand, gold remained the main medium of exchange and savings, leading to the continuous devaluation of the drachma. The printing of the drachma led to an increase of note circulation and inflation, which pushed prices and wages upwards. The economy and the people remained, to a large extent, dependent on external relief and the government on foreign economic aid. The only serious effort, in terms of economic policy, came from Kyriakos Varvaressos, who was appointed deputy prime minister and minister for supplies in June 1945. Varvaressos embraced an interventionist policy which aimed at tightening government control over the economy. His measures included the prohibition of transactions in gold and foreign currency, the improvement of the rationing system and a more socially just utilization of UNRRA supplies, the control of wages and prices, and heavy direct taxation of businesses. The new tax provoked the immediate reaction of industrialists and merchants. Olive oil disappeared from the market and other basic goods, such as soap, butter, cheese and sugar, were in short supply and, as a consequence, their prices soared. The tide of inflation caused a series of strikes and demands from civil servants and professional groups for salary increases. Faced with the reaction of the economic elites and the suspicion of the Left, Varvaressos resigned in September 1945.

Grigorios Kasimatis, the new minister for the national economy, abandoned the interventionist policy in favour of free market principles: the controls on prices were lifted, indirect taxes were increased to cover the deficit, restrictions on the sale of gold were lifted and the government sought loans. The economic situation deteriorated rapidly. In the autumn of 1945, revenues covered just half of expenditure, prices increased sixfold and the price of gold sovereigns went up twelvefold within five months. Buell

Maben, chief of the UNRRA mission to Greece, was alarmed by the danger of a general breakdown of the state machinery. He believed that swift action on the part of the government was more than necessary to control wages and prices, increase taxes, and reduce expenses (by cutting the number of civil servants) together with other measures such as the establishment of a system of allocation of supplies, the requisition by the government of finished products, etc.\(^{27}\) Greek politicians thought differently: the delegation that visited London in January 1946 claimed that a tax increase would impair the recovery of production, that the problems of the budget deficit and currency stability could be solved within the broader perspective of the economic reconstruction of the country, and that any effort in that direction depended on foreign economic assistance. British hesitations were overcome because the danger of economic collapse was evident and the Left eventually capitalized on popular discontent as a wave of strikes spread in October 1945. On the other hand, the British government was willing to help Greece financially. The geographical position of Greece was important for the communications of the British Empire, especially since the other Balkan countries had fallen into the Soviet sphere of influence. Moreover, the victory of the pro-British political forces in the March 1946 elections, to a large extent, depended on the improvement of the financial situation and the stabilization of the economy. A pro-British Greek government was a guarantee for British imperial interests in the broader region. Thus, the question was not whether the British would help Greece financially, but the conditions of that aid.\(^ {28}\)

On 24 January 1946, the British and Greek governments signed an agreement in London. The London Agreement provided a British stabilization loan of £10 million and the waiving of the £46 million war debt. The Greek government agreed to reduce the deficit by increasing revenue (through higher taxation and the sale of UNRRA supplies), controlling wages and devaluing the drachma. Moreover, perhaps equally important was the establishment of two new institutions: the British Economic Mission (BEM) and the Currency Committee. The former was designed to supervise the policy of the Greek government in matters of finance, industry, agriculture, transport and labour relations. The agreement made clear that the BEM

\(^{27}\) National Archives and Records Administration (NARA), 868.50/1-1046, American Embassy, London to Secretary of State, 10 January 1946.

had only an advisory role and no authority to oversee the implementation of its suggestions. This was not the case with the Currency Committee, a five-member body in which one British and one American participated with the right to veto the decisions of the three Greek members.29

Following the London Agreement, the drachma was drastically devalued, gold could be sold freely on the market, the prices of UNRRA goods rose, and import restrictions were lifted. In the first half of 1946, the Greek economy seemed to be in much better shape: inflation diminished, normal trade resumed and the recovery of production was steady. However, the sale of gold and unrestricted imports drained the country’s foreign exchange (sterling and dollars) and gold reserves.30 As one scholar has argued, ‘by using irreplaceable foreign exchange and bullion holdings to subsidize its current deficits, the government was sparing itself the painful task of balancing the budget by imposing heavier taxation and reducing expenditures’.31 Additionally, the government could no longer rely on relief aid, since the US government had decided to stop financing UNRRA. In the summer of 1946, the Greek government was searching for a new loan – but this time in a different location, on the other side of the Atlantic.

The inability or reluctance of Greek ministers to work out a viable plan for the economy was, to a large extent, based on the assumption that there would be foreign economic aid. It is true that, until the elections of March 1946, successive governments lacked political legitimacy and power and that the state apparatus was in disarray due to the occupation. However, the economic situation did not improve after the elections, when the Right won and Konstantinos Tsaldaris became prime minister. The real problem behind the lack of any viable economic policy was the decision not to clash with the economic elites. Despite the increasing needs of the government and the mounting budget deficit, the government was unwilling to pass the necessary economic reforms and tax the upper classes; the deficit was to be covered with foreign economic assistance. In other words, foreign economic aid was used in order to leave intact the interests of the economic elites; as one scholar has argued, ‘the indispensable underpinning of the strategy that manifested itself as speculative behaviour was the institutionalization of a mechanism of foreign aid’.32

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29 Lykogiannis, Britain and the Greek Economic Crisis, op. cit., pp. 156-160.
31 Lykogiannis, Britain and the Greek Economic Crisis, op. cit., p. 187.
In Search of Foreign Aid, Part Two: The Americans

A Greek delegation visited Washington in August 1946. Greece by that time had already received from the United States a $25 million loan from the Export-Import Bank in January 1946, and another $10 million surplus property credit in May 1946. In July 1946, Tsaldaris met with James Byrnes, the Secretary of State, in Paris and asked for $6 billion in economic assistance. The astronomical sum clearly made Byrnes furious, who confided a month later to the journalist C.L. Sulzberger that he was ‘a little fed up with the Greeks.’ Requesting $175 million in economic aid, the Greek delegation to Washington portrayed Greece as a country defending ‘democratic freedom’ and ‘free trade’ surrounded by ‘hostile and undemocratic states dominated by Russia’; the country, they added, was in such a precarious position that the ‘social order’ was at stake. American officials found the memorandum of the Greek delegation to be ‘poorly conceived and inadequate, containing many inconsistencies […] as well as [the] surprising statement [that] increased taxation would produce inflation’. However, the problem was not that the memorandum was badly prepared. The Truman administration was reluctant to give additional economic aid to Greece because it considered the Greek government unreliable and incompetent and that ‘no attempt has been made to put its economy on a sound basis’.

Gardner Patterson, who knew the Greek government’s economic policy from the inside on account of being a member of the Greek Currency Committee, was more to the point: ‘much of the various governments’ failure to take appropriate, be they unpopular, financial measures has been due in large part to their conviction that Greece is in such a strategic military and political situation that the U.K. and/or the U.S. cannot afford to permit another serious financial and economic catastrophe’.

The Truman administration was unwilling to provide any further economic aid, except perhaps for financing specific projects. The main reason for the reluctance of the United States was that it saw no reason to support the Greek government since Greece had no particular significance


NARA 868.50/8-746, Henderson to Baxter, 7 August 1946.

The Acting Secretary of State to the Ambassador in Greece, 14 August 1946, FRUS, 1946, vol. 7, 190-191.

NARA 868.51/8-2046, Lincoln and Nortman to Ness and Sumner, 20 August 1946.

NARA 868.51/8-1246, Athens to Secretary of State, 12 August 1946.
for it from a geopolitical point of view. It is ironic that at almost the same time (early September 1946), other circles in Washington drew the exact opposite conclusion. A War Department committee drafted a memorandum to the State Department that concluded as follows: ‘It is in the interest of U.S. security that Greece be supported. [...] In addition to political support, there should be economic assistance in the form of liberal and unfettered credits, and direct relief to supplant UNRRA assistance.’ The reversal of US policy towards Greece was based on geopolitical considerations. The US military was convinced that Soviet aggression in the Eastern Mediterranean was reaching its peak, and for this reason, some historians have suggested that the Cold War started in Iran and Turkey, rather than in Europe. The Greek civil war, American officials argued, was instigated by the neighbouring communist countries in the Balkans with the view to overthrowing the right-wing government and establishing a communist puppet regime. In August 1946, the Soviet Union requested from Turkey a revision of the Montreux Convention to allow the joint Russian-Turkish defence of the Dardanelles. Also, in the summer of 1946, the conflict between the Soviet Union and Iran, concerning the control of the latter’s northern provinces, escalated. For the State Department, the civil war ‘may result in [an] early major crisis which may be a deciding factor in [the] future orientation of Near and Middle Eastern countries.’ For American policymakers, the Greek civil war was not simply a case of Soviet expansionism in the Balkans but rather a part of a Soviet plan to gain access to the oil reserves of the Middle East; the US government and the American oil companies were particularly anxious about their economy and security interests regarding oil, which were already threatened by Soviet policy in Iran. The British, who until the Second World War played a dominant role in the area, were no longer capable of securing Western interests in the region vis-à-vis the Soviet Union. In fact, the British themselves had to rely on American economic assistance, the so-called British Loan of $3.75 billion granted after the US-UK agreement of 5 December 1945. It was up to the USA to ‘rescue’ Greece from communism. Thus, in the autumn of 1946 the question again was not

40 NARA 868.00/10-1546, Department of State to Athens, 15 October 1945.
whether Greece would receive economic aid (from the Americans this time) but the conditions attached to that aid.

The Truman administration sent the American Economic Mission to Greece, which spent two months in the country (18 January-22 March 1947), in order to investigate Greece’s economic problems and make suggestions. The recommendations of the mission head, Paul Porter, stemmed not only from the grave situation of the Greek economy but also from his very low opinion of the political and economic elites of the country.42 The mission advocated the active intervention of the Greek government in the economy, the urgent reparation of public works and a programme of agricultural and industrial development that could make Greece a self-sufficient country. The report concluded that the Greek government would need not only vast sums of financial aid but also ‘the assistance of experienced American administrators, economists and technicians to insure that American aid and Greece’s own resources are used effectively in creating a stable, self-sustaining economy’.43 Thus, it suggested that an American mission should be sent to Greece to supervise the aid and advise the Greek government. In April 1947, a month after the declaration of the Truman Doctrine, Porter sent a memorandum to the Undersecretary of State, Dean Acheson, in which he acknowledged that his proposals ‘constitute a departure in established relationships between sovereign states’. ‘Yet,’ he continued, ‘the Greek state has asked for assistance and supervision which is in itself a limitation of her sovereignty’.44

The Greek government was already fully aware of the new reality. On 21 February 1947, the British government officially informed the State Department that, from 31 March 1947, it would be unable to provide any further financial assistance to Greece. The Truman administration moved swiftly. The State Department prepared, for the Greek government, a draft of a request for economic aid from the American government; the Greek government accepted it and presented it as its official request.45

42 In his diary, Paul Porter wrote after a dinner with Greek industrialists: ‘I imagine that most of the individuals with whom I talked are past masters at getting their profits converted into gold or foreign exchange and hedging them abroad. I raised the question with this group that a stranger to the country gathers the impression that the businessmen of Greece are selling their country short’. Harry Truman Library, Paul Porter Papers, American Economic Mission to Greece Diary, Tuesday, 4 February 1947.
44 NARA 868.20/4-2247, Paul A. Porter to the Acting Secretary of State, 22 April 1947.
45 Wittner, American Intervention, op. cit., p. 73.
1947 Truman spoke before Congress, asking for the approval of economic aid of $300 million for Greece and $100 million for Turkey. As soon as the bill passed, the first priority of the State Department was to start preparing an agreement between the American and Greek governments concerning the supervision of the aid.

The agreement for American aid to Greece was entirely different from that of UNRRA (in which the Greek government had the responsibility for the distribution of relief aid) and the British (in which the British Economic Mission played an advisory role only). The agreement provided that the American Mission for Aid to Greece (AMAG) would have extensive powers and responsibilities and that the Greek government had to comply with the mission’s recommendations, otherwise the economic aid would be withdrawn. The note that accompanied the agreement was more specific. The AMAG would ‘participate in the development of revenue and expenditure policies, approve government expenditures which directly or indirectly involve the use of American aid, take part in the planning of the import program, and approve the use of foreign exchange’. The note concluded that ‘in general the Greek government will wish to consult with the Mission before taking any economic steps which might affect the success of the American aid program’. The AMAG’s activities, however, were not restricted to the economy. Secretary of State George Marshall instructed the chief of the AMAG, Dwight Griswold that, if he thought it was necessary, he could also be involved directly in Greek politics and bring about the ‘reorganization’ of the Greek government. And so it happened. Shortly after the arrival of the AMAG, the Greek government was ‘reorganized’ under American pressure. On 7 September 1947, a new coalition government of the Populist and Liberal parties was formed under the premiership of the more moderate Themistoklis Sofoulis (whose party had polled only 14 per cent in the 1946 elections), after he was interviewed by State Department officials regarding his stance towards the Greek communists and the Soviet Union.

The AMAG acquired the character of a shadow government. It was organized in ‘divisions’ which corresponded to the ministries of the Greek government, that is finance, public policy, commerce, public health, aid distribution, agriculture, industry, reconstruction, labour, welfare, legislation,
and, of course, defence. Moreover, Americans were appointed to two committees: the Currency Committee (which was a leftover from the British Economic Mission) and the Foreign Trade Administration. Not surprisingly, Griswold was described as ‘the most powerful man in Greece’. Eventually, from 1947, Greece became a country of restricted sovereignty. The Greek government acquiesced in the restriction of sovereignty and acted duly. As Konstantinos Tsaldaris, minister of Foreign Affairs, said in late November 1947, in the beginning he was worried that Griswold might become a sort of ‘High Commissioner’ of Greece, ‘but after thinking [the] matter over had reached the conclusion that only thus could the situation be saved’.49

Within this context and during the Greek Civil War, American economic aid poured into Greece – it is estimated that between 1947 and 1951 this amounted to approximately $3 billion. Half of this aid was directed to the military, at least until 1949 when the civil war ended. A large part of the remainder was used for the relief of war refugees, whose number reached 700,000 in 1948-1949. The financing of economic reconstruction, especially in industry, was very limited. The priorities of the American mission were the stabilization of the currency and the balancing of the budget without introducing the necessary economic reforms (for instance, the increase in direct taxation) that would affect the interests of the economic elites; on the contrary, by allowing the free sale of gold this enabled them to continue their speculative behaviour and convert their wealth into gold instead of investing it in production. Moreover, the four-year plan (1948-1952) that was submitted by the Greek government and the Economic Cooperation Administration/Greece set as priorities the development of specific industries (metallurgy, chemicals, oil refining, etc.) and the increase in electricity production – mainly through hydroelectric power projects. The four-year plan was met with scepticism in the ECA headquarters in Paris, and, eventually, it was abandoned.50 The ambitious plans for reconstruction and the transformation of Greece into a self-sufficient country were replaced by more ‘realistic’ approaches. In 1949, several policymakers and experts in the State Department argued that the future of Greece depended on the

49 Harry Truman Library, President’s Secretary’s Files, Athens to Secretary of State, 29 November 1947.
development of agriculture and small industry and, also, on emigration, since it was an ‘overpopulated’ country.\(^{51}\)

**A Broader Perspective**

The United States had emerged from the Second World War as the most powerful country in a world which was volatile and could easily be destabilized. Although the United States was not threatened by any country, US policymakers began to redefine national security interests in broader and more expansive terms. Security interests were identified with economic interests and, thus, the United States was determined not to allow any hostile power to gain access to vital resources or to control strategic positions.\(^{52}\) The expansion of the Soviet sphere of influence in Eastern Europe alarmed and galvanized both the State Department and the Pentagon. The decline of European imperial powers and the devastation of war allowed the United States to strive for world hegemony in a double sense: to defend the economic interests of capitalism and to protect militarily countries from Soviet ‘aggression’ worldwide. In departing, however, from the tradition of European imperialism, US world hegemony was to be based on a different idea on empire. The post-war American empire was based, on the one hand, on the indirect control of the world economy via international institutions that were controlled by the United States and, on the other, on the consent of countries to American intervention – it was a new kind of world hegemony, which has been aptly described as ‘empire by invitation’.\(^{53}\) The new post-war world was characterized by multilateralism, supranationalism and interdependence – but under the guidance of the United States.

Already before the end of the Second World War, a number of international economic agreements and financial institutions were established to design the post-war reconstruction of the world economy. A world of free trade could open the way for economic prosperity and political stability. Following the Bretton Woods conference in July 1944, a new post-war world

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system came into being through a series of agreements between the forty-four countries that set up the General Agreement on Tariffs and Trade, the International Monetary Fund and the World Bank. In 1947, however, the Americans thought that the Bretton Woods system was unsuitable to deal with the new problems of Europe. On the one hand, the IMF and the World Bank were not yet operational and had insufficient credit to finance the reconstruction of Europe and, on the other, the expansion of the Soviet sphere of influence in Eastern Europe, and the political instability and the power of the communist parties in France and Italy, had changed the priorities of American foreign policy in Europe. The post-war recovery of the European economy had been steady but slow; UNRRA aid was due to expire in March 1947 and the question of Germany’s future had already divided the four occupying powers. The latter (involving issues regarding German production, reparations, the relations between the different zones, etc.) was a source of friction not only between the Americans and the Soviets but also between the Western powers themselves, that is between the French, British and Americans.54

In the spring of 1947, the idea of providing US economic assistance to Europe not on a bilateral basis but in the direction of integrating the European economies was gaining ground among American policymakers. On 5 June 1947, Secretary of State George Marshall, addressing the graduating class of Harvard University, announced the government’s decision to help the reconstruction of Europe financially. Three months earlier, Truman, seeking approval for American economic aid to Greece and Turkey, had declared the determination of the United States to assist any country that was threatened by ‘totalitarian’ regimes. Thus, the reconstruction of the capitalist economy and the containment of communism were intertwined and became the foundations of United States policy in Europe. However, the two were not always compatible or did not always have equal importance for United States policymakers.

The American priority for Western Europe was the reconstruction of the economy, whereas for Greece it was the military defeat of the Left. Greece was a small agrarian country in the Balkans, and therefore of secondary importance for the recovery of the European economy. Successive Greek

governments were unwilling to introduce the necessary social and economic reforms that would bring about a self-sustaining economy because that would entail a clash with the elites that supported the regime. The financial crisis destabilized a government that already faced the challenge of the Left. In this way, foreign economic aid became the precondition for the preservation of a government which guaranteed the regional geopolitical interests, first, of Britain and, later, of the United States. From the global perspective of the United States, Greece was at the frontiers of the empire, an outpost of strategic rather than economic significance. The strategic interests of the United States coincided with the interests of the Greek economic and political elites in defeating the Greek Communist Party in the civil war. For this reason, American intervention was welcomed by the Greek government, despite the fact that it entailed the signing over of state sovereignty. The rise of the United States to the status of a global power in the post-war years created new power relations that led to the emergence of new forms of sovereignty, which not only concerned Greece but the rest of Western Europe as well.