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Economic Developments in Liberated Greece

J. Herbert Furth

Greece escaped large-scale devastation during the war, and its population was probably treated less cruelly during the three and one-half years of German occupation than were the Poles and Serbs. Nevertheless, the country's suffering equalled or surpassed that of any other European nation. Its economic life, indeed, its very existence, is entirely dependent upon foreign trade and shipping. Greece produces some valuable export materials (raisins, wine, oil, tobacco), but has to import practically all fuel and industrial raw materials and a large part of its vital foodstuffs, especially cereals. Moreover, even its domestic transportation system is dependent upon seagoing vessels since much of its traffic runs between the mainland and the Aegean islands. The German occupation and the loss of the Greek merchant marine thus interrupted communications not only with former sources of necessary imports, but within the country as well. The Germans imported a few necessities in exchange for Greek products, but the quantity was small and was probably more than offset by the consumption of scarce domestic goods by the German and Italian forces of occupation. Moreover, in spite of the country's poverty even in times of peace, the Germans managed to extract 600 million reichsmarks (240 million dollars) worth of goods without compensation, under the title of occupation costs and "clearing credits", apart from those exports that were paid for by imports from Germany. The result was actual starvation--the only non-planned instance of this kind in German-occupied Europe. The food situation became so bad that the Allies permitted the Red Cross to ship grain from neutral countries to Greece in spite of the blockade, the only such exception granted during the war.

Liberation did not change the picture immediately. The retreating Germans crowned their work by senselessly destroying railroads and bridges, thus aggravating the transportation problem even more. Although relief shipments were resumed immediately after the first landing of the Allied forces in October 1944, the distribution of goods was impeded by the lack of communications and by the political situation which in December 1944 led to full-fledged civil war. Not before the middle of January, when the civil war was ended by British intervention, could the job of reconstruction be tackled in earnest.

The hopeless conditions of the economy under German occupation led to hyper-inflation as early as 1943. By November 1944, the drachma circulation had reached 7 billion billion, or almost one billion times as much as before the outbreak of the second World War. The entire circulation was practically wiped out on November 11, when the Government decreed the exchange of 50 billion old drachmas for one new drachma. Even before that time, the means of payment in actual circulation consisted largely of gold sovereigns, valued finally at 120,000 billion old drachmas, and British military pound notes, valued at 30,000 billion old drachmas. The measure taken by the Government removed completely the danger of a "pent-up" inflation, but the resumption of production and transportation, and the rehabilitation of the fiscal administration was delayed by the civil war, and so the forces making for inflation remained active. The Government had to finance practically all its expenditures by central bank credit, i.e., by printing new bank notes, and the circulation rose again without a corresponding increase in the supply of goods. On May 31, 1945, the bank note circulation reached 25,712 million drachmas, or about three times the pre-war figure, and 23,333 million of that sum was accounted for by advances granted to the Government after November 11, 1944. During the month of May, Government receipts from taxes and sales of imports totaled 3.1 billion drachmas, but advances from the Bank of Greece amounted to 6 billion. The official budget figures reveal a deficit of "only" 3 billion, but the Bank of Greece figures show that it actually was at least twice as high, representing nearly two-thirds of total government expenditures. By the end of May 1945, the price of the gold sovereign, which remained the favorite investment as well as the principal standard of value, had risen to 19,500 drachmas, more than 8 times the figure of November 11, 1944; the index of free market prices stood at 4 times the level of November 1944 and share prices at 10-1/2 times the November level. More than half of the rise in those indices occurred after the middle of April. As a result of this development, salary and wage controls, established in November 1944, disintegrated gradually although wages still lagged behind the rising cost of living.

The supply situation showed signs of improvement, however. Thanks to UNRRA shipments, the scarcity of vital foodstuffs was overcome. The fuel and clothing situation continued tight, but in May 1945 modest shipments of wool and cotton arrived, and larger amounts were reported under way. A peculiar difficulty was presented by the distribution of old clothes collected by UNRRA and given away to the needy. Those garments were of widely different quality, ranging from rags to almost new fur coats. If they had been sold, even at very low prices, a suitable price gradation could have taken account of these differences. Since

UNRRA insisted upon free distribution, however, those persons that received rags considered themselves cheated, and those that received good clothes were the object of hate and envy; moreover, rumors of favoritism and corruption inevitably sprang up and hampered the work of the distributing agencies. The incident showed that the criticism of free distribution, uttered by high officials of UNRRA itself, was well-founded, and it may affect the future policy of that institution.

The recovery of agriculture was hampered by bad weather conditions which threatened crop failures in large parts of the country, but industrial output rose to 37 per cent of pre-war capacity. Progress was slowed by the continuing scarcity of fuel and raw materials, by labor unrest due to falling real wages, and also by the removal of some leading industrialists on account of charges of collaboration. It has been reported that these charges were sometimes brought for personal or partisan reasons rather than for the sake of justice, and that tax authorities used them as means for raising revenue. Transportation both by land and by sea was improving, but the arrival of more trucks was partly offset by the excessive rate of wear and tear, due to bad roads, inefficient handling, and inadequate repair facilities.

In spite of the more hopeful aspect of the commodity side of the economy, the financial difficulties made another drastic step inevitable. The action taken early in June by Minister Varvaressos may prove to be a turning point in the financial history of the country, comparable in importance to the stabilization attempt of November 1944. Varvaressos devalued the drachma by 70 per cent in terms of dollars, and attempted to fix the level of prices and wages at figures more nearly conforming to world market conditions and to eliminate the gold sovereign from daily transactions.1/ These actions, however, were only incidental to the main effort, namely to rehabilitate the Government finances, and by doing away with the deficit, avoid further inflationary pressure. Varvaressos decreed two measures to that effect. He ordered a reduction in the number of Government employees which had increased beyond any reasonable limit during the years of occupation and still further after liberation. Secondly, and this was the main point, he enacted sweeping new direct taxes. The most important of them was a tax upon business enterprises, expressed in varying multiples of the rental paid by commercial firms, and in fractions of the value of industrial installations. In a speech of June 23, 1945, Varvaressos defended these measures by pointing out the absolute necessity of stopping the creation of new purchasing power in excess of the production of goods; the inequity and sheer impossibility of imposing higher indirect taxes upon peasants and wage earners who had suffered the heaviest losses during the period of war and inflation and were least able to carry new burdens; and the duty of the only classes which had profited by the inflation, namely merchants and manufacturers, to contribute to the cost of restoring the economy. The tax would not be unbearable since the merchants benefited from low rent ceilings and therefore had to pay to the Government not more than they would have

1/ See Review of Foreign Developments, June 11, 1945, p. 5.

to hand over to their landlords under free market conditions, while the industrialists had preserved their invested capital intact and even after deducting the new tax would fare better than any other group. Since rental and industrial instalments were roughly proportional to the capital and profit of an enterprise, the distribution of the tax among the taxpayers would be equitable without making necessary difficult computations or cumbersome investigations. It also would act as an incentive to increase production and turnover, and by hitting most severely a few large concerns which controlled a disproportionate portion of the total national wealth, would revive the spirit of free competitive enterprise.

The reaction of business to the decree was disappointing. Business leaders apparently failed to see that in a society gravely endangered by a militant communistic minority a capitalistic system could be maintained only by real sacrifices of the leading economic groups. They felt that their own party Government had let them down, and went so far as to proclaim a "strike", ordering all merchants to shut their stores. The Government contends, however, that the rank and file showed more sense than the leaders, that the "strike" was a complete failure, and that the first instalment of the new tax, due at the beginning of July, was paid without protest by the great majority of business men.

The efforts to reduce prices showed some success. During the month of June, the price index dropped by 19 per cent, and individual prices of some necessities (textiles and clothing) even by 35 per cent. The price of the gold sovereign fell from 19,000 to 12,500 drachmas, but the latter figure still was more than three times as high as the official value. The wide gap between domestic prices and world market prices expressed in dollars was narrowed and thus the way was paved for the resumption of exports. If this trend continues during the months to come, the measures may fulfill the expectations of their author. Otherwise a violent reaction probably will be inevitable, with grave consequences in the realm of domestic and international politics as well as in the economic sphere.

Switzerland's Foreign Trade in 1944

Rosa Ernst

The year 1944 proved to be the worst year of the war for Swiss foreign trade, with both imports and exports declining. The chief factors in these decreases were the lack of transportation facilities, lack of raw materials, and difficulties encountered in obtaining navicerts and landcerts. During the first five months of the year, trade on a fairly steady level was carried on with Germany, Sweden, the Balkans, Spain, and the United States; but immediately after the invasion of France in June, trade with all countries except Germany and Sweden came to a stop. As a matter of fact, trade with Sweden continued steadily throughout the year, while trade with Germany began to dwindle during the last four months, despite the fact that the clearing agreement between the two countries had been extended from July 29 to the end of 1944.

In the late summer, Switzerland began to take steps to re-establish trade connections with the Allied nations. On August 14, a preliminary trade agreement was signed in London between the United States, Great Britain, and Switzerland. However, hopes for the resumption of imports and exports after the liberation of France did not materialize because transportation remained far more difficult than anticipated, due to military operations and developments. Only in October was it possible to send a large quantity of Swiss watches out of the country; this brought the exports for that month to the highest level since February. During the remainder of the year, exports were negligible and imports continued to fall.

The total imports for 1944 amounted to 1,186 million francs and the exports to 1,132 million as compared with 1,727 and 1,629 million in 1943, respectively. The decline in value of both imports and exports was about 31 per cent. Figures for imports and exports of the most important commodities for the years 1938, 1943, and 1944 are presented in the tables on the following page.

It is interesting to note that while in 1938 cereals and legumes was the largest import item (179.7 million francs), by 1944 such imports had fallen to third place (101.3 million). This development was probably due to the fact that, from the outset of the war, the Swiss Government carried on a vigorous campaign to increase the area of cultivated land. Other items of food and agricultural products, such as tobacco, show a decided increase both in 1943 and 1944. The imports of mineral products rose to 228 million francs in 1943 as compared with 166 million in 1938, but dropped in 1944 to 161 million. Machine parts, iron ore, etc. dropped to 133 million, close to the figure of 1938 (130 million), while in 1944 it had amounted to 178 million francs. Chemicals also show little change from the 1938 imports (84 million), but declined in 1944 to 86 million as compared with the 1943 figure of 111 million. The item of machinery, etc. shows a steady decline from 1938, when it amounted to 71 million francs, to 55 million in 1943, and to 33 million in 1944. Other items show less significant increases or decreases, although it must be remembered that the increases in some categories over 1938 are attributable not only to increased volume but also to increased prices.

Swiss Imports
(In millions of francs)

Commodity	1938	1943	1944
Mineral products	165.5	228.4	160.7
Iron ore, pigs, hardware tools, machine parts	130.0	178.1	132.6
Cereals, legumes, and products	179.7	172.6	101.3
Groceries, etc.	63.0	141.1	100.3
Fruits and vegetables	82.7	111.7	87.3
Chemicals	84.1	110.8	85.7
Seeds and plants	37.3	89.2	47.1
Beverages	36.6	114.2	45.5
Machinery, etc.	71.4	54.6	33.2
Tobacco	17.3	29.4	30.2
Lubricating greases	26.4	38.5	27.9
Total	894.0	1,268.6	851.8
All other imports	712.9	458.5	334.1
Grand total	1,606.9	1,727.1	1,185.9

Swiss Exports
(In millions of francs)

Commodity	1938	1943	1944
Watches, clocks, and parts	241.3	337.8	303.4
Silk products	87.1	116.7	169.4
Machinery	205.9	312.3	136.8
Hardware, tools, and machine parts of iron and steel	52.8	148.3	58.4
Pharmaceuticals	63.6	101.1	83.3
Instruments and apparatus	57.0	158.2	78.5
Coal tar dyes	84.3	53.4	54.9
Embroideries and other manufactures of cotton	109.1	55.6	38.0
Chemicals	51.4	120.3	31.8
Aluminum	73.2	44.4	31.7
Vehicles	31.0	35.5	17.9
Total	1,056.7	1,483.6	1,004.1
All other exports	259.9	145.3	127.7
Grand total	1,316.6	1,628.9	1,131.8

The war years caused an acceleration in the export of watches which constitutes by far the largest export item, amounting to about 27 per cent of total exports in 1944, about 21 per cent in 1943, as compared with about 18 per cent in 1938. Figures for the embroidery and cotton industry show a decided drop in value, the 1944 exports amounting to only 38 million francs, as compared with 56 and 109 million in 1943 and 1938, respectively. Another industry, the machinery industry, fell from an export total of 312 million in 1943 to 139 million in 1944, as compared with 206 million in 1938. Hardware, tools, and machine parts is another export item which shows a drop from 148 million in 1943 to 58 million in 1944, while in 1938 it amounted to 53 million. Chemicals dropped from 120 million in 1943 to only 32 million in 1944, as compared with 51 million in 1938. A large decrease may be noted also in exports of instruments and apparatus which declined from 158 million in 1943 to only 78 million in 1944. A surprising increase over 1943 and 1938 occurred in silk products, which in 1944 amounted to 169 million francs, compared with 87 million francs in 1938 and 117 million francs in 1943. The greatest part of silk exports went to Germany and Sweden, although the United States as well as some other countries (chiefly Hungary, Rumania, Denmark, and Iran) imported fairly large amounts of Swiss silk products.

During the war, when Switzerland was cut off from her normal trade relations with overseas countries, she had to depend on Continental countries for most of her imports as well as her exports. Germany, which in 1938 had supplied Switzerland with over 23 per cent of her imports, played an even more important part in 1943 and 1944. Thus, in 1943, Swiss imports from Germany of 532 million francs accounted for 31 per cent of the total, while in 1944 imports of 433 million francs accounted for 37 per cent of total imports. Imports from France, which in 1938 were 229 million, fell to 57 million in 1943 and to 28 million in 1944. A decided drop is to be noted in imports from the United States which dropped from 125 million in 1938 to 56 million in 1943 and to 21 million in 1944. No data are available on imports in recent years from the United Kingdom, but in 1938 they amounted to 95 million francs. Imports from Canada increased from 24 million francs in 1938 to 80 million francs in 1943, but during 1944 they dropped to 14 million francs.

Germany was the most important customer for Swiss exports. Exports to that country, which in 1938 amounted to 206 million francs (18 per cent of the total), increased in 1943 to 598 million francs (37 per cent), and during 1944 fell to 294 million francs (26 per cent). Exports to France declined from 121 million in 1938 to 51 million in 1943 and to 23 million in 1944. Exports to Great Britain also showed a decided decrease, falling from 148 million in 1938 to 36 million in 1943 and to 34 million in 1944. It is interesting to note that during 1943 and 1944 exports to the Axis-controlled countries, such as Denmark, Hungary, and Rumania, showed notable increases over the figures for 1938. Exports to Sweden also increased considerably, rising from 41 million francs in 1938 to 108 million and 159 million in 1943 and 1944, respectively. Despite shipping difficulties, exports to the United States show a considerable rise from an amount of 91 million in 1938 to 153 million in 1943 and 141 million in 1944. Of this amount, approximately 100 million consisted of watches and parts.

Since 1917, the Swiss trade balance has shown a considerable import surplus. After the outbreak of the war, however, this surplus has shown a tendency to decrease, falling as low as 98 million at the end of 1943 and to only 54 million at the end of 1944.

The post-war outlook for Swiss international trade is uncertain. Most of the European countries have been devastated by almost six years of war and their purchasing power has been drastically reduced. The index for Swiss export prices for the second quarter of 1944 stood at 206 (1938 = 100), while the index for import prices for the same period was 228. Swiss international trade relations seem to depend on three factors: (1) re-establishment of transport facilities; (2) stabilization of currencies; and (3) establishment of low import quotas and tariffs. Until European countries will have been rehabilitated and will be able again to take their places in the import as well as export markets, Switzerland may have to depend to a great extent on trade with overseas countries both as sources of raw materials and as markets for Swiss products. It is felt that temporary Government supervision and the regulation of imports and exports may have to be continued in the immediate future.

Economic Developments in Liberated Yugoslavia

J. Herbert Furth

The end of the war in Europe left Yugoslavia one of the most devastated parts of the continent. The Germans dismembered the country immediately after its occupation in the spring of 1941. They divided the most advanced region, Slovenia, between the Reich and Italy and gave Italy additional territories bordering the Adriatic Sea; they awarded fertile parts of the Vojvodina to Hungary and most of Macedonia to Bulgaria; they installed puppet administrations in Croatia, which they made a nominally independent state, and in what remained of Serbia. The Germans expelled a great part of the Slovéne population of the area incorporated into the Reich. The Italians, Hungarians, and Bulgarians, although perhaps not quite so ruthless as the Germans, also ruled their portions without respect for the rights of the Yugoslav population. The Croat puppet administration waged a campaign of extermination against non-Croat elements, especially Serbs and Jews, and later fought the partisans of Marshal Tito in a civil war more savage and devastating than any the country had previously experienced. The Serb puppet administration was harrassed from the beginning by the German occupation authorities, who exploited the country shamelessly, and at the same time by the "chetniks" of General Mikhailovitch who fought the German invaders, the Serb and the Croat puppet administrations, and the Croat partisans, all at once. It has been estimated that about one-tenth of the entire population of Yugoslavia, or more than one million men, women, and children, were killed during the four years of war. Under those circumstances, the country's economic life was reduced to a pre-capitalistic level. The peasants, who fortunately represent almost four-fifths of the total population, continued to cultivate their farms and to produce at least enough food for their own subsistence. In the larger cities, the occupation armies and puppet administrations managed to maintain a semblance of order. Apart from that, however, economic conditions were chaotic, with a complete breakdown of production and transportation.

Liberation did not change the situation fundamentally. Even since the formal reconciliation between Marshal Tito and the Yugoslav Government-in-Exile--which for many years had supported General Mikhailovitch--the strife between Croats and Serbs, partisans and chetniks, communists and anti-communists, fascists and anti-fascists, has been going on. Definite clashes are now on a smaller scale and the preponderance of power clearly rests with supporters of the new Government. New difficulties have been added, however, especially by the foreign policy of the Government which has embroiled the country simultaneously with the Western Allies, Italy, Greece, and Austria. Economic reconstruction would probably have progressed more rapidly in a calmer atmosphere.

At the time of liberation, inflation was already in full swing both in Croatia and Serbia. In Croatia, the note circulation increased from 7.5 billion kunas in April 1941 to 97 billion in September 1944, 149 billion in December 1944, and over 250 billion in May 1945 (final liberation of Croatia). Most of this increase was due to the deficit spending of the puppet administration, especially to the cost of the civil war; about 29 billion (as of December 1944) represented "clearing claims" against Germany, i.e., direct contributions to the German war effort. Prices went up 20 to 110 times during the period of occupation. In Serbia, note circulation increased from about 7 billion dinar to 45 billion between April 1941 and October 1944 (liberation of Serbia); Serb "clearing claims" against Germany and German-dominated countries reached 13.5 billion dinar. This sum, however, constitutes only a fraction of the Serb contributions to the German war effort; in contrast to Croatia, which was treated by the Germans as an "allied" country, Serbia was subjected to wholesale looting, which included the removal of entire industrial plants. Prices increased 12 to 15 times; the smaller rate of increase conformed to the smaller degree of currency expansion. In part, at least, this was paradoxically due to the more hostile attitude of the Germans: the Germans took from Serbia as much or more than from Croatia, but they flooded the country with less paper money because they did not "pay" so well.

After liberation, the partisans continued to finance their expenditures by means of increasing the note circulation because of the breakdown of the administrative machinery of the country. By May 1945, the note circulation in Serbia had reached more than 70 billion dinar. The budget deficit for the second quarter of 1945 was estimated officially at only 15.5 billion dinar, but the rapid increase in the note circulation (almost 6 billion per month in Serbia alone) shows that this figure is far too low. The deficit is caused exclusively by expenditures for "defense", which account for about one-half of all government expenses. The Government has continued the high tax rates imposed by the invaders, which fall largely upon business enterprises and salaries, but a tax reform is expected in the near future. This reform will raise rather than lower the total tax burden, but as long as business does not recover, it is doubtful whether any tax system can wipe out the deficit.

The conversion of the occupation currencies into a new dinar[1/] had the purpose of bringing the circulation back to the level of 1939. Taking as a basis the figures quoted above, the conversion rates were chosen in such a way as to reduce the circulation in Serbia to 3.5 billion new dinar, and in Croatia to about 2 billion. Since these two areas accounted for about two-thirds of the entire country, and the rates for conversion of currencies in the other parts were chosen even lower than those for Croatia, the total new circulation would not have exceeded the figure of July 1939 (8.2 billion dinar) even if all occupation money had been exchanged. Actually, the amount exchanged was far smaller because of the limitations imposed upon individual conversions. The difference may be used by the Government for financing the deficit during the coming months up to the time when the new taxes can come into force.

1/ See Review of Foreign Developments of April 30, 1945, p. 7, and of July 9, 1945, p. 3.

The Government declared at the time of the currency conversion that its main purpose was to lower the price and wage level to the 1939 level. As was to be expected, this goal has not been reached. Even if the new circulation had been reduced to half of the 1939 figure, the upward pressure on prices would have continued since production has declined, and the general distrust of the monetary policies of the Government has substantially increased the velocity of circulation. Moreover, the Government, in order to gain the good will of wage earners, has fixed wages at about four times the 1939 level, or (in terms of the old currency) at about six times the level of March 1945. Salaries have been fixed considerably lower, but prices are even higher than would correspond to the rise in wages.

Commercial banking is at a complete standstill. Under the German occupation, practically the entire business was concentrated with German-controlled institutions, except for a few surviving Croat banks. The currency conversion has reduced the balance sheet totals and especially the capital of all commercial banks to negligible amounts. The National Bank of Yugoslavia was dissolved by the Germans and replaced by separate "puppet" central banks for Serbia and Croatia. Reportedly, it has been revived, but its status is unclear and its note privilege has been transferred to the Government itself. It is assumed that the Government intends to replace all private banks by government institutions.

Agricultural production was hampered, first by the reluctance of farmers to produce more than necessary for their own consumption because of their inability of purchasing industrial goods for the money they received; and secondly, because of the physical losses and the deterioration caused by the occupation and the civil war. Losses of livestock vary from 20 to 75 per cent, and these losses have seriously affected the productivity of the soil, which used to depend chiefly upon livestock manure. The Government is anxious to promote collectivistic farming methods. Since these methods, however, conflict with the traditional Yugoslav family tenure of homesteads, the only part of the country where such an experiment could be made, was the Banat. In the 17th and 18th centuries, after the country had been liberated from Ottoman rule by the armies of the Empire, this part was settled by immigrants from Southwestern Germany, who transformed the swampy and fever-ridden marshes of the Lower Danube into a model farmland. In the course of "anti-Nazi" purges, all descendants of these settlers were dispossessed, and their land turned over to cooperatives, formed after the example of the Russian system.

Industry and trade has been more deeply affected by collectivistic tendencies. The Government frequently has disclaimed the intention of socializing at once all business enterprises, but its actions have not entirely conformed to its announcements. As a matter of course, all enterprises owned by Nazis, collaborators, or foreigners have passed under Government control, including the important mining industry, formerly the property of British and French companies. A recent decree has also put the wholesale and retail trade in all agricultural and mining products, timber, and textiles under complete state control. Thus the share of the Government in non-agricultural production, which under the semi-fascist dictatorship before the outbreak of the war already had reached 30 per cent of the total, has considerably increased and by now probably has become far larger than the private sector.

Foreign trade is represented mainly by some help furnished by UNRRA and some imports from Russia, made in exchange for future deliveries of minerals and other products. A large part of imports from Russia consists, however, of war material, which will hardly help the rehabilitation of the country's economy. The Government has assumed full control of foreign trade and has made it, for all practical purposes, a state monopoly.

The Government repeatedly has emphasized that the welfare of the country rests upon increasing production and voluntary co-operation between the people and the administration. So far, little has apparently been done to promote these ends. Production has scarcely picked up, and the country still is ruled by martial law, with a large part of the population in a state of more or less passive resistance. According to observers on the spot, the forthcoming elections may well decide the economic as well as the political future of the country. If the people--freely or under pressure--endorse the present Government, the Russian system probably will be introduced with little change. If the people show that they prefer to be ruled in a Western fashion, its economy probably will be reconstructed on the basis of a modified Western capitalism.

(The new dinar is officially valued at 2 United States cents.)