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STATEMENT BY THE HONORABLE W. L. CLAYTON, UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS, BEFORE THE HOUSE FOREIGN AFFAIRS COMMITTEE, MARCH 24, 1947

The general political situation in Greece has already been outlined by Mr. Acheson. I should like to explore with you the economic position of the country and the events which have brought the Greek economy to a state of near collapse.

Even before the war, Greece was a poor country. Her per capita income was one of the lowest in Europe; labor productivity was low in both agriculture and industry; population pressed on limited resources; and there was a constant deficit in the balance of trade.

Greece entered the war on the side of the United Nations relatively early in the conflict. By April 1941, Greece was completely occupied by enemy forces and remained under occupation until late in 1944. During this period, the Greek economy was operated almost entirely by and for the enemy war machine. Through such devices as issue of occupation currency, drafts on the Greek Government, clearing arrangements which gave exports to the enemy without recompense, requisitions, confiscations and the like, the Greek economy was systematically and progressively stripped and at the same time billions of drachmas were pumped into circulation.

One of the first acts of the German occupation authorities was to requisition existing stocks of Greek food, already seriously depleted. Agricultural products were regularly requisitioned in various areas and sometimes the Germans themselves harvested crops to keep them from the local population. Clothing was requisitioned in Crete and other Greek areas.
The Germans relied on transport, machinery and raw materials to whatever extent was required by the German armed forces and the German economy. Greek industry was used to meet the conqueror's needs at home and to supply the necessary spare parts and repairs for his damaged equipment. Machinery in factories that could have supplied Greek civilian requirements was removed and replaced by machinery designed especially to maintain German war equipment.

As the enemy forces withdrew, they put into effect a policy of systematic destruction calculated to wreck the Greek economy to such an extent that a liberated Greece would have slight prospect of normal recovery in the foreseeable future. The physical damage inflicted on the country was sufficient to result in almost complete paralysis. Means of communication were destroyed, port facilities wrecked, and bridges demolished. Livestock was carried off, villages burned, railroads torn up and the Corinth Canal dynamited.

The following
The following figures will serve to highlight the heavy material losses suffered by Greece from the war. Of 95 passenger vessels in 1929 only 6 survived. Less than one quarter of the cargo vessels were still afloat. The Greek State Railways had lost over 80 percent of their rolling stock nearly 70 percent of their locomotives. Half of the road highway system was unusable and half the bridges had disappeared. Industrial production was only a small fraction of that in 1930. Agricultural production had not suffered as much but was still substantially below pre-war levels.

In addition to the visible damage sustained by Greece, the Greek economy fell prey to progressive inflation, which stemmed largely from the heavy occupation costs levied by the enemy. At one point in the summer of 1943, occupation cost payments reached 15 billion drachma weekly. It may be estimated from Greek government figures that occupation costs totaled over 432 million 1938 dollars. In addition, Greece incurred heavy drachma expenses for products exported to the Axis during the occupation under the earlier arrangements with Germany and Italy. Both countries at the end of occupation repaid not unpaid exports by Greece totaling about 434 million 1938 dollars. By liberation such fantastic amounts of drachma were in circulation that the currency system was on the verge of complete collapse.

In fact the Greek government in exile was compelled almost immediately upon its return to Greece to abandon the old currency and establish a new one. Conversion was effected in November 1944 at the rate of 50 billion old to 1 new drachma. This had the effect of wiping out bank deposits and destroying the value of Greek government bonds and other obligations.

The fiscal position of the Greek government on liberation was also appalling. The machinery of government was disorganized. The pre-war tax structure had completely collapsed making the occupation in the municipal as well as on the national level. At the same time the financial burdens of the Government were greatly increased. Hospitals, schools, and many other essential services had to be financed from the national treasury since the municipalities were bankrupt. The Greek’s fight to preserve their independence against impossible odds and the subsequent occupation had greatly increased the number of widows, orphans and disabled entitled to support. Moreover economic conditions handed a further heavy burden on the Greek budget for military needs even though the British government made a substantial contribution in this respect.

Ever since liberation the Greek government has been faced with a mounting budget deficit. Unfortunately, however, the lack of confidence in the currency and credit of the government engineered by the inflationary experiences through which the Greek people have just passed has made that the government has been unable to float any internal bond issues since the drastic currency revaluation of November 1944. Lack of confidence in the currency is also reflected in the absence of any appreciable savings in the form of bank deposits. This in turn has limited the ability of Greek banks to supply essential credits to the Government up to business and industry to finance rehabilitation and reconstruction. As a result, reconstruction has been greatly retarded and the government has been.
been forced to cover the deficit in effect by currency issues.

These currency issues have inevitably added to the inflation in Greece, exerting upward pressure on prices and the exchange rate. The over-all cost of living is now more than twice as high as in 1939. Goods have increased but not proportionately with the result that there has been a drastic decline in real wages. The exchange rate has had to be adjusted from 150 per dollar established at liberation to 5,000 per dollar fixed in January 1946. Even this rate has been consistently below black market rates which are now in the neighborhood of 6,500 to the dollar. The rate for gold is even higher amounting to approximately 10,000 drachmas per dollar.

In these circumstances the Greek Government has made efforts to attain stability by the expedient of selling gold sovereigns at premium rates. While this practice may have had some effect in stabilizing the value of the drachma it has also reduced the gold and foreign exchange reserves of the Government to a dangerously low point.

Greece finds herself today with virtually no gold or dollar resources left, with relatively little reconstruction accomplished, and with an economy which threatens to collapse at the onset of almost any serious adverse development. The shock to confidence from the inflationary experience of recent years was itself enough seriously to disrupt the normal functioning of the economy. This added to the destruction wrought by the war, the political uncertainties facing the nation, and the guerrilla activities imperiling life and property in the interior, has meant virtual paralysis of the normal economic processes by which Greece might otherwise have been able to work out her own salvation.

The assistance hitherto provided by UNRRA and the British has succeeded in preventing actual starvation. It has been far from sufficient to restore Greece to a position where she could become self-supporting. With the imminent cessation of the help provided by UNRRA and the British, Greece needs substantial outside assistance if suffering and political turmoil are to be avoided. Such assistance can only come from the United States in the time and in the amount required.

I shall endeavor to outline the program of assistance which is proposed. The Congress has already been advised that with the termination of UNRRA shipments Greece will require minimum relief aid of $50 million if serious malnutrition and further retrogression in the minimum operation of the economy are to be prevented. This sum will be provided under the post-UNRRA Bill if this is approved by the Congress.

Provision of relief aid in this amount will not, however, be sufficient to restore domestic security or provide the minimum reconstruction and stability which are necessary if Greece is again to take her place among the self-supporting democratic nations of the world.

For this purpose it is believed that approximately $200 million will be necessary. Of this approximately half would be devoted to making available to the Greek armed forces the arms, ammunition, clothing, rations, and equipment necessary to deal effectively with the guerrillas. The political and military
military reasons for strengthening the Greek Army have been discussed by others, but I should like to emphasize that the establishment of military security is an essential prerequisite to economic stability. The economic difficulties of Greece have been seriously complicated by a general lack of confidence in the future of Greece as an independent state. Establishment of military security will enable the Greek Government and people to concentrate their efforts upon the solution of their economic problems, and renewed hope and confidence will encourage Greek private enterprise to undertake a larger share of the tasks of reconstruction.

The civilian program envisaged will cost approximately $150 million. I would like to indicate very briefly the nature of this program, in particular the import or foreign exchange elements involved.

We have estimated that imported equipment and materials for reconstruction until June 30, 1948 will cost approximately $40 million. The first priority in reconstruction must be given to the restoration of transport and public utilities. Internal transportation in Greece is a serious bottleneck to further recovery. Until the railroad network is fully restored and sufficient rolling stock provided, the present excessive diversion of traffic to trucks will have to be continued with attendant high costs which hampered internal distribution and export.

Greek roads have deteriorated very seriously and, in such unhealthily bad condition that the life of vehicles is only a fraction or several thousand miles; the need for new roads is extremely high. The two principal ports, Pireus and Salonica, were very heavily damaged and have been restored on only a provisional basis.

In order to make progress toward the restoration of the Greek transport system, it will be necessary to import considerable quantities of rolling-stock, rails, structural steel and bridge-building material, road machinery and earth-moving equipment, some vehicles and the services of the United States contractors and technicians.

Restoration of damaged and destroyed electric utilities and communications systems must also be given a high priority. Substantial imports of electrical machinery and communications equipment will be required.

Agriculture, which is the basis of the Greek economy, depends heavily upon the various flood control, irrigation and water control facilities. During the war these facilities were neglected by the invaders and the equipment necessary to keep them in good condition was either destroyed or removed. The dams, dikes, canals and ditches have, as a result, deteriorated very seriously, and unless they can be rehabilitated very soon, further deterioration and loss of agricultural output is inevitable. For example, the Thessalian Pithos project which drains and irrigates an area of roughly 450 square miles along the Aris River in north central Greece has been virtually without maintenance since the beginning of the war. In order to reclaim this vital project, such pieces of equipment as hydraulic dredges, ars, Aris, bulk dredges and tractors are needed as well as maintenance equipment for these items. Such equipment will have to be imported.

During
During the war much industrial plant in Greece was idle and the Maze removed and destroyed considerable industrial equipment. Minor suffered very seriously. Imports of industrial equipment will be required to permit Greek production to return to pre-war levels.

Any visitor to rural Greece is impressed by the waken destruction of rural dwellings, of which over 100,000 were destroyed and $5,000 badly damaged. The foreign-exchange costs of beginning the restoration of this tremendous loss are a small but vital element in the job.

Aside from the problem of initial reconstruction, Greece urgently needs further assistance in the rehabilitation of agriculture. UNRRA has made a start by the importation of some livestock, farm machinery, food processing equipment and the like. This program includes $20 million for this important task.

This $20 million and the $50 million for reconstruction are to cover the cost of foreign goods and services entering directly into these programs. But in order to carry out the reconstruction program it will also be necessary to employ local labor and materials. Greek labor and raw material producers will be paid in drachmas. However, the Greek laborer or raw material producer cannot be expected to make available his services or products unless he can convert the drachmas he receives into the goods and services required by himself and his family.

Even with the additional supplies of food and clothing to be provided for abroad under the direct relief program the total supply of goods and services available for purchase will be barely sufficient to permit holders of drachmas to convert them into the necessities of life. Large drachma payments must be made in connection with the proposed reconstruction program, and such increased drachma purchasing power will exert a tremendous pressure upon the limited supply of goods. In such circumstances, each new drachma recipient would bid against his neighbor for available supplies, and the result would be a rapid rise in prices. Wage earners and raw material producers would soon find that their drachma receipts were inadequate to produce the necessities of life, and they would demand increased payment for their labor and products. If the basic shortage of goods were not remedied, increased wages and prices to producers would not enable them to procure the goods they require, but would only lead to more frenzied competitive bidding and further price rises. Price controls and rationing are only temporary palliatives under such circumstances, and experience has shown that the effective operation of controls of this nature cannot be expected in Greece under such circumstances.

It is our firm opinion that the reconstruction program in Greece cannot be carried out successfully unless consumers' goods are made available from abroad, roughly equivalent in value to the drachma expenditures in connection therewith. The best available estimate of these expenditures is $50 million. Greece itself is the cheapest source of the labor and of much of the raw materials required for the reconstruction program, and of course such labor and materials should be utilized to the utmost. The precise method of carrying out an integrated program of reconstruction, including the procurement and distribution of the necessary consumers' goods should, I believe, be left for determination by the American Mission, which it is proposed to send to Greece.
To summarize, the $260 million civilian program for Greece consists of the $70 million agricultural rehabilitation program, and a reconstruction program which includes $50 million for foreign exchange costs and $50 million for internal costs.

I should like to emphasize that all the estimates I have given you are necessarily rough approximations, and that it is essential that flexibility be maintained, so that adjustments between various portions of the program can be made in the light of experience and developments which cannot now be anticipated in detail.

The funds made available under this program must, of course, be utilized to best advantage so that our objectives may be achieved efficiently and economically. It will be necessary to send a civilian mission to Greece to administer this Government's interest in the program. We cannot now say what the size of such a mission would be, or how it would be organized; these questions are still under study.

It is clear that we should not make any expenditures for the Greek program until specific plans have been developed, and have been approved by us. The mission in Greece would be in a position to carry a large part of the responsibility for this activity. It is also clear that the expenditure in Greece of funds that may be made available to the Greek Government must be subject to control by our mission there.

Furthermore, it is my considered opinion that in the United States any purchases with these funds should be made through the procurement agencies of this Government, or, if made otherwise, should be subject to careful supervision and strict control.

Finally, we must see to it that competent persons are sent to Greece to ensure the development of controls at key points and to supervise their application. This is so short, and the expenditures involved so great, that we must be assured that sound policies will be adopted and effectively administered in matters such as the following: fiscal methods; a modern tax structure; strict maintenance and control of the foreign exchange earnings of the Greek people; conservation of remaining gold resources; a restriction on nonessential imports; and the expansion of Greece's exports. These measures, no less than the financial advances we are proposing, are necessary to put Greece back on her feet.

I have stressed the economic situation in Greece because it is one of crises. General economic conditions in Turkey are more favorable than those in Greece. In fact the latest information available indicates that Turkey has sufficient resources to finance the essential requirements of her civilian economy.

It also appears that Turkey should be able to procure through existing credit channels part of the additional resources required for a program of general economic development. However, Turkey urgently needs military and other capital equipment which she herself cannot at present procure without seriously impairing her general economic position. The necessity for assisting Turkey in bearing the burden of her military defense is very real and immediate beginning should be made. The $100 million recommended for Turkey will be devoted to equipment for the Turkish armed forces and for projects such as the rehabilitation of the Turkish railroad system, which
which will contribute most directly to the maintenance of security in Turkey.

The bill now before you provides that the President shall determine the terms upon which assistance will be furnished to Greece and Turkey from the appropriations authorized. These terms may be loans, credits, grants or otherwise. In view of the unusual conditions confronting us in this situation, I do not believe that it would be wise or practical to specify now what these terms might be.

Any act of financial relationships, to be sound, must be related to the realities and objectives of the case. I believe that assistance for military purposes, being essential to our own security, and not in itself creating the wherewithal to repay, should be made as a clear grant.

Financial assistance for civilian purposes would appear to fall in a somewhat different category. Repayment could be sought when the direct effort of the financial aid was to create the ability on the part of the receiving country to meet such obligations in foreign exchange. However, I do not believe that we should create financial obligations for which there is no reasonable prospect of repayment.

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