

VERY PRELIMINARY DRAFT

**ECONOMIC CONSEQUENCES OF WORLD WAR II FOR  
GREECE**

by

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**ABSTRACT**

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The Association's kind invitation to address you today brought back numerous memories of the school celebrations of the OXI Day, back when I, too, was a schoolchild nearly 50 years ago. Back then, we listened to school principals and occasional guest speakers who lectured us, somewhat sternly, on the significance of the OXI Day. But they never really told any of the details of what followed the glory of OXI Day. To be fair to all those people, the memories were too fresh, the pain was still there. They had lost friends and family, and experienced wounds and, yes, starvation. They must have had their own first-hand memories. It was only 10 to 15 years earlier; it wasn't yet "oral history."

I will leave it up to my fellow presenters and speakers (of all ages) here today to deal with cultural, political and military matters. I want to concentrate on the immediate economic consequences of World War II for Greece, during the war and its immediate aftermath. I will limit my attention to what happened up until the end of World War II as such for Greece – nearly 60 years ago today – and a bit beyond. Of course, they were many longer run consequences of WW II for Greece.

But today, I will discuss the appalling human and material losses and consequences of WW II for Greece. Those losses were staggering, appalling, especially since they were an outcome of a war on a much weaker adversary. Long after the dead were buried and the destroyed buildings replaced, an important and lasting consequence of the war years for Greece continued well into the 1960s, was above all the destruction of social *trust*.

## **1 The Beginning of War and the Italian Attack**

Curiously, the first four or so months of the war, from the attack in the Albanian front and until the opening of the German attack in Northern Greece, were not particularly costly for the Greek economy — the impact of those first months happened later. The Greek government, in spite of its ostensible neutrality and pro-Axis leanings, had anticipated that the country might in fact be entangled in the hostilities and had made plans for a war economy.

But the country could not pay for the costs of the war economy. Greece received generous economic assistance from the British government, about 1.2 billion \$ (today's dollars), to pay quite a lot of the cost of the first phase of the war, that is until the German invasion of Greece. So, it is appropriate to start the grim count of the real cost to Greece from the time when the Axis occupation was complete, in late April 1941.

## 2 The Three-Power Occupation

As soon as the Axis powers took over Greece, they divided the country in three zones of occupation and issued their own currencies. There were four of them: *marks* issued by the Germans, the *Mediterranean drachma* issued by the Italians (plus the *Ionian drachma* in the Ionian islands), and the *leva* by the Bulgarians in Eastern Macedonia and Thrace. Of course, these currencies were totally worthless outside Greece. The occupation forces issued these currencies in amounts they determined according to their own own needs, that is in order for them to buy goods they needed to continue the war and the occupation. Then in August 1941, the German military administration decided to keep the drachma as the only means of payment. The occupation forces took as much money as they wanted from the puppet Greek government and the Bank of Greece. These requests and so-called "loans" from the Greek state were completely arbitrary and honored by virtue of force. The occupation forces were able to extract a lot of resources from the Greek people by the printing of ultimately worthless currency for several years. First, they forcibly set the prices of the goods they were buying at artificially low levels; second, they alone and their agents had access to transportation and received the goods where they were being produced, in the countryside and the cities. So they used the worthless currency to take most goods, thus depriving the Greek people of food, clothing and other necessities, and many minerals that Greece used to sell abroad in order to buy other goods.

The way they extracted resources from the Greek people was to set prices at an arbitrary

level and pay by printing (worthless) currency. This way of extracting resources replaced a policy of requisitions (that is, outright confiscations), whereby the occupation forces simply ordered that goods be delivered. The forced purchases proved to be ultimately even more destructive than the requisitions, as we shall see shortly. Some of the goods that the occupation forces so acquired were actually sent to Germany itself, to feed the German population and to provide for their other needs, as well as outside Greece for the needs of the Axis war machine in Germany and throughout Europe and Northern Africa.

The economic decisions of the occupation forces led to an astronomical increase in prices. There were too few goods left in the markets for the Greek people to buy. Too much money, worthless occupation money, was chasing these goods. The policy even caused problems for the occupation forces themselves. After 1943 and on, the occupation forces started doing what some wealthy Greeks were already doing: using golden coins, like English golden sovereigns and and golden twenty-franc coins. Using gold coins did not stop the by now *hyperinflation*, an unbelievably rapid increase in prices. It had the additional effect of further sapping the confidence of the people in their currency, turning in effect foreign gold coins into currency. For years thereafter, into the 1950s and 1960s, Greek distrusted their own currency, the drachma, and instead preferred to deal in golden sovereigns, especially for major items, like houses, land, dowries, etc. I remember that in my own lifetime.

The occupation forces were aware of what they were doing. In late October 1943, the puppet government convened a meeting of experts, who identified the double nature of the problems: the occupation forces were only robbing the Greek people of their food, but were also paying the Greeks for confiscated goods in ways that destroyed the Greek people's confidence in their own institutions.

### 3 Hyperinflation

From April 1941 to October 18, 1944 (when the legitimate Greek government returned to Greece), the level of prices went from the price level by  $1.60 - 2.6 \times 10^9$  that in the average about 2.0 billion times.<sup>2</sup> This means that what one drachma bought in 1941 2 billion drachmas were needed in 1944.

Such an increase in prices, by millions and billions of times is known as *hyperinflation*. Hyperinflationary episodes also afflicted post WW II Hungary and post WW I Germany. It meant that the value of the currency was much less than the paper it was printed on, quite literally. The war-time hyperinflation in Greece totally destroyed the trust that the Greek people had in their economic and social institutions.

### 4 Destruction and Economic Collapse

I have talked about how people's trust in money was destroyed. At the same time, the physical infrastructure was destroyed an extent that was greater than other Western European countries.

Greece was a poor country when WW II started. When the war started, the typical Greek person was consuming only 80% of the calories consumed by the typical English person, not to mention the quality and variety of goods, and of course, non food items as well.

The actual numbers for the physical destruction in the economy are simply staggering. Already at the end of 1941, Greek national income went down to 40% what it was before the beginning of the war in 1940. By the end of 1945, one full year after the end of the WW II for Greece, Greek income was less than 60% of the prewar level. These numbers come from a report by UNRRA.<sup>3</sup> UNRRA is a word that is very familiar to people of my generation and perhaps to parents and grandparents of people in the audience. The burden on the average

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<sup>2</sup>Alogoskoufis and Lazaretou (1997); Anderson, Bomberger and Makinen (1988); Lazaretou (2003); Makinen (1984; 1986).

<sup>3</sup>United Nations Relief and Rehabilitation Administration (UNRRA) (1947).

Greek of the wartime support for the occupation forces were five times higher than that for average French person, a country that was also occupied by the Axis powers<sup>4</sup>.

The human toll was simply appalling: Greece's population was 7,300,000 in 1940, and only 7,150,000 in 1946. During 1940–44 (which does not include the civil war), more than half a million Greeks perished in military operations, executions, murders and disease. Most of the Jewish community in Greece, and all of that in Thessaloniki, was destroyed. During the winter of 1941-42, a great famine (of African proportions) took place and claimed more lives than the Albanian front. It was a gruesome outcome of the pillaging of Greece by the Axis powers.<sup>5</sup> Things improved a bit when some food was allowed in, and was shipped by American, Canadian and Swedish relief organizations through Turkey.

A total of 880,000 were declared victims of war, of whom 760,000 were non-combatants. The heights of young Greeks decreased as a result of malnutrition, especially in the age groups 6 to 16 years of age. There were 3,000,000 cases of malaria, 1.5% of the rural and 3% of the urban population suffered from tuberculosis.<sup>6</sup> These diseases caused deaths and suffering long after the end of the war.

More than 1,000,000 people were left homeless. 23%, almost a quarter of the country's buildings were destroyed. One-third of the country's 3000 villages were destroyed. Three-fourths of all transportation equipment was destroyed. This exacerbated the other economic problems during and immediately after the war, as the economy could not move goods from one part to another part of the country. Eastern Macedonia and Thrace produced a lot of food in Greece at the time, but it was not being shipped to the rest of Greece anymore. All of the country's agricultural tractors were destroyed!

Greece was an agricultural country at the time; it relied tremendously on animals, for power and food. They were destroyed, to a large extent. Of all livestock: 55% of horses, 50% of mules, 59% of cows, 70% of sheep, 71% of pigs, 78% of donkeys, , 68% of chickens

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<sup>4</sup>Thomadakis (1981)

<sup>5</sup>Kolliopoulos and Veremis (2002).

<sup>6</sup>Bank of Greece (1978).

and 56% of goats were all destroyed. One of those goats that survived, was the one that fed my older sister and me with milk when she and I were infants.

The Paris Conference on Reparations calculated that the material damage from the war to Greece amounted to 3.8 billion \$. Material damage and the resources extracted by the occupation forces together amounted to 8,451,833,000 \$ (1947). That was nearly 60 billion of today's dollars, one-third of today's Greek GDP.<sup>7</sup>

## 5 Collapse of Trust

As the official documents and all of the literature, some of which we are about to hear, from that period testify, these numbers barely measure the social and moral impact on the Greek people. Trust in money was one of the assets that were destroyed. Economists also talk about social capital, the wealth of social relationships and trust we all rely on. All these and traditional values were also destroyed, making it much harder to recover from the material damage of the war years. What followed WW II for Greece has a lot to do with it, unfortunately.

## 6 Conclusion and Lessons

Greece is a very different place today. A new treaty on a European Constitution was signed in Rome two days ago by the leaders of the 25 states that make up the European Union. The Euro has replaced the drachma. With help from her friends on both sides of the Atlantic, Greece has become part of the European Union, an economic and political alliance of 25 countries. Many of those European countries suffered similarly and a few even worse from the war — Germany was set back by 40 years, and Austria by 60 years, in terms of income. Greece is engaged actively in a vast project to build a “kind of United States of Europe”.

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<sup>7</sup>Bank of Greece (1978).

This is heeding, in a way, a call made by Winston Churchill, September 19, 1946. The killing fields of the Eastern and Western Fronts, the gas chambers and all other barbarities of two world wars less than 50 years apart have a lot to do with what is happening with the creation of the European Union today!

My teachers and indeed our parents found it too painful to remember and to tell us the detailed stories of the war. Today, let us not forget the main message the history teaches us, that is, of how terrible are the things that wars unleash on people and their governments. This message continues to be very important today, too.

Thank you!



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