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International aid to southern Europe in the early post-war period

The cases of Greece and Italy

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Abstract

After the Second World War, both Greece and Italy experienced a Left-Right political polarization and a reproduction of earlier patterns of political patronage. Both Italy and Greece received international aid, including emergency relief, interim loans, and Marshall Plan funds. By the beginning of the 1950s, the Italian economy had recovered better from war destruction and had achieved industrial growth faster than Greece. Italy progressed quite rapidly from stabilization to reconstruction, and then on to development, while Greece progressed with reconstruction, but did not achieve stabilization until after the end of the Marshall Plan.

Italy and Greece were obviously different with regard to population and market size, but the outcome of the foreign aid they received, differed in the two countries. This paper suggests that the different outcome is explained by historical legacies and conjunctures, as well as …

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series of institutional, cultural, and political factors. Greece underwent a disastrous Nazi occupation (1941-44) and the destructive Civil War (1946-49) of which Italy was spared. The Italian public sector was endowed with state agencies steering economic development, which the Greek public sector lacked until the early 1950s. Italian elections resulted in more stable governments, led by the Christian Democratic Party, which followed their own policy choices, often deviating from the donors' policy preference. This was a pattern absent from the long sequence of unstable and internally fragmented Greek governments. The Italian governing elites relied on a social alliance of middle and upper classes, while in Greece the corresponding classes distrusted the government, and resisted government policies. Finally, an economic culture fostering heavy industrialization, in the context of pragmatist liberal economic policies, was present in Italy, but absent in Greece.

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1 Introduction

Southern Europe offers one of the first examples of effective, but also simultaneously problematic, international aid in the twentieth century. Greece and Italy were both severely affected by the Second World War, and both received extensive international aid in the early post-war period. The two countries reacted differently to the international aid, as the uses to which aid was put depended on legacies of the past, interests of domestic institutions, and actors involved in the politics and economic development of the two countries.

As Table 1 shows, after the war had ended, the two countries were soon able to recover. Indeed, their economies performed well. Italy outpaced Greece, while the Marshall Plan (1947-52), officially known as the Economic Recovery Programme (ERP), benefited both countries. From 1950 onwards, Greeks and, particularly so, Italians saw their income rise. In both countries, per capita income in 1963 was more than double its level in 1951, while Italians on the average were about 30 per cent richer than Greeks (Table 1).

Table 1: Evolution of the GDP per capita in post-war Greece and Italy

Year	Greece	Italy
1951	650.84	899.85
1953	708.64	1006.36
1955	792.92	1146.01
1957	963.95	1316.33
1959	1079.43	1537.86
1961	1223.35	1785.02
1963	1388.96	2017.61

Source: Adapted from Heston et al. (2012).

Note: figures show PPP converted to GDP per capita, G-K method, at current prices in US$.

The accomplishment of Greece and Italy is better appreciated if one reckons the situation of the two countries, when the German army was defeated by the Allies in Italy (April 1945), and when the last German soldier left mainland Greece (September 1944).

In Italy, while many industrial plants in Genoa, Turin, and Milan had survived the war, industrial output was only 29 per cent of pre-war levels, while agricultural output was 63 per cent.[1] However, the industries, which comprised pre-war Italy's Instituto per la Ricostruzione Industriale (IRI), a state-controlled conglomerate, were ruined.[2] There were approximately three million unemployed in a population of 43 million, lack of raw materials, large liquidity which fueled inflation, and war destruction aggravated the pre-war backwardness of southern Italy.

In Greece, the situation was worse. There was complete destruction of transportation, including railways, ports, airports, and bridges, as well as private vehicles (of which only 14

[1] Harper (1986: 1).
[2] Harper (1986: 3).

per cent survived the war).[3] Pre-war shipping capital did not survive either, as 72 per cent of it was destroyed in 1939-44.[4] During Greece's occupation by the German, Italian, and Bulgarian armies in 1941-44, agricultural production and distribution of agricultural goods to the cities all but ceased. Famine threatened urban centres, both during and after the war, while the occupation armies were confiscating goods, food, animals, and machinery. After the war, Greece was the poorest among West European countries, while its middle- and lower-income strata were hit by unemployment and inflation. Moreover, destruction continued after the end of the war, as the Greek countryside, and less so the cities, were affected by fierce battles, which took place during the Civil War in 1946-49. During that period, forced displacement of persons aggravated their already dire economic situation. Moreover, Kazakos point out that during the Civil War, in the northern prefecture of Kilkis, the population was reduced by 33 per cent.[5]

However, thanks to international aid and the efforts of Greeks themselves, Greece was able to catch up with its pre-war levels of production: by 1950 industrial production had reached 110 per cent of its capacity in 1938.[6] The rapid and extensive economic recovery was obviously different in Greece and Italy. The latter country became an industrial power, but Greece also progressed economically, as a result of a combination of external and domestic factors.

External factors were common, as both countries were under the tutelage of the US and received extensive international aid, of which the most important milestone was the ERP, which started in 1947. Until 1951, the ERP poured aid amounting to US$1315.7 million to Italy, and US$515.1 million to Greece (see Table 2).

Earlier on, both countries had also benefited from aid channeled by the United Nations Relief and Rehabilitation Agency (UNRRA) in 1943-47. The UNRRA aid to Greece totaled US$415 million; while to Italy US$418 million (see Section 4 on post-war relief to the two countries). Greece (but not Italy) benefited from the Truman Doctrine of 1947, whereby the US assumed Britain's supportive and supervisory role over countries like Greece and Turkey. In contrast to Italy, these two countries were at the forefront of the emerging divide between the Western and Eastern bloc.

External factors included not only economic but also military aid, in the context of the formation of a new military alliance, North Atlantic Treaty Organization (NATO). The alliance was created through the North Atlantic Treaty signed in 1949 by the US, Canada, and ten west European countries, including Italy (Greece joined in 1952).[7]

All these US-led initiatives, destined to aid Greece and Italy among other European countries, should be seen in the light of the Cold War and the rivalry between the US and the Union of Soviet Socialist Republics (USSR) for world power. The US would not have spent so many resources, nor would it have committed itself to supplying international aid to Greece and Italy, if it were not for the double challenge to 'contain' the USSR, and avert the coming to power of the very popular communist parties in European countries after the end of the war.

[3] Kostis (2013: 713).
[4] Kazakos (2001: 59-60).
[5] Kazakos (2001: 127).
[6] Kostis (2013: 715).
[7] Calvocoressi (1991: 174).

Nevertheless, international aid by itself would not have guaranteed economic recovery and institutional development, if it had not been combined with a domestic context, conducive to recovery and development. Anti-communist political parties gained power in both countries after the war, and forged supportive alliances with the elites and the middle classes, which were fearful of the prospect of a communist take-over. Moreover, the power of anti-communist political forces was consolidated through resorting to the Greek and Italian public bureaucracies and security forces, which were never properly 'purified' of authoritarian elements, left-over from the period of the Metaxas regime in Greece (1936-41) and the Mussolini regime in Italy (1923-43).

In what follows, a paired comparison between Greece and Italy, in the period between the end of the war (1944-45) and the end of the Marshall Plan era (1952), is offered. This article starts with the case selection, namely the reasons for comparing Greece and Italy. It then proceeds to analyze the post-war political and institutional context of Greece and Italy. Next, initial post-war programmes of aid and reconstruction are discussed, before switching to the corner-stone of international aid, the ERP. In the concluding section, a lesson about the possibilities of success of international aid is drawn on the basis of the two cases under study.

2 Case selection

Greece and Italy are comparable cases for a number of historical and political reasons. First, both countries experienced extensive destruction owed to the war in 1941-44. Greece fought a war against Italy and Germany in 1940-41. It was then subjected to brutal, combined Nazi German, Italian and Bulgarian occupation, during which Greek partisans engaged in organized armed resistance that brought about the reaction of the German army. The Germans repeatedly destructed property and whole villages, in various areas of the country.

Italy became a major theatre of war in 1943-45, while the Allied forces fought their way up the Italian Peninsula, in a series of combats against the receding German army. After the Axis armies left Italy and Greece, most of infrastructure and productive capacities of their economies were destroyed, while political and administrative institutions were under-resourced and fragile.

Second, in Greece and Italy, a popular left-wing partisan army became the primary resistance force fighting against the occupation armies. As a result, in both countries the Left enjoyed widespread political support. Even though the Left in both countries tried to participate in, or capture power after the war, the evolution of the Left's strategy differed in Italy and Greece. The Italian Communist Party (PCI), under Togliatti, participated in the first post-war Italian government. Following the expulsion of its ministers from the government in May 1947, it did not opt out for military confrontation with the Italian government. It stayed in the opposition thereafter.

By contrast, in Greece, the Civil War broke out. The resistance army, which had been organized by the Greek Communist Party (KKE) and other left-wing resistance fighters, clashed with the British army, who had landed in Athens in 1944, after the Germans had left. After this military confrontation in the centre of Athens in 1944, the Right violently oppressed left-wing cadres and sympathizers, while the KKE sought to acquire power through a combination of peaceful and violent means. The Civil War started in 1946 and lasted until 1949. Right-wing and centrist parties combined forces, formed coalition governments, and supported by the US, they became victorious out of this war. The KKE was banned, while its members and supporters were imprisoned, executed, or exiled.

Despite the different outcome of the confrontation between the Right and the Left, in the two countries under study, it is important to note that in the post-war period Greece and Italy had the most influential communist movements in Western Europe. This was a fact that coloured all decisions of the governments of these two countries and the US.

Third, even before the war in Greece and Italy, there was an extensive underdevelopment and poverty. In large pockets of southern Italy and Sicily, and in rural Greece, the living conditions, conditions of sanitation and hygiene, access to health care and education, resembled those of pre-industrial societies.[8] The war, and particularly the Civil War in Greece, contributed to the deterioration of these conditions. During the Civil War, a flow of refugees who fled or were pressed by the Greek army to flee the zones dominated by the communists created additional demand for relief.

In Italy, deprivation was such that: ' … there was serious Allied concern at the possibility of further political and social instability which might allow the Communists to gain the upper hand.'[9]

Fourth, the governing elites in Greece and Italy were frail or divided enough to make international diplomatic and economic support more than necessary. The Christian Democratic Party (DC) appeared to Americans ' … both essential for recovery of Italy and vulnerable to domestic upheaval'.[9] The same applied for Greece's successive centrist- and right-wing coalitions in 1944-52.

3 The political and institutional context of the immediate post-war period

After 1948, Italy achieved political stability, while Greece had drifted into a three-year long Civil War since 1946. Yet, the two countries shared some political and institutional commonalities.

In Italy, after the war, elections were inconclusive. In the June 1946 elections, the three largest parties were the DC, which received 35 per cent of the total vote; the socialists (PSIUP) who obtained 21 per cent; and the communists (PCI) who obtained 19 per cent. A coalition government was formed afterwards, which survived under a lot of tensions. Yet, the decisive time point was the elections of 1948, when the DC established its hegemony over the Italian party system and state. The DC, which under De Gasperi, won 49 per cent of the vote, against 31 per cent of the coalition of the Left. The DC formed a coalition government with smaller parties.

Italian communists pursued their aim to reach socialism through parliamentary means, while maintaining their revolutionary ideology. The PCI would keep this difficult balance until the 1970, when it took its distances from Moscow, and espoused 'Eurocommunism'. In the meantime, to the benefit of Italian democracy and economy, the '1948 electoral results

[8] For Greece, see William MacNeil (1978: 138-160). For Italy, see Ginsborg (1990).
[9] Furlong (1994: 54).

confirmed both De Gasperi's international policies, and Togliatti's policy of avoiding armed actions or strikes, which would undermine the sovereignty of parliament.'[10]

Following the 1946 referendum, which abrogated the monarchy, the 1948 Constitution affirmed the Italian republic, which took the form of parliamentary democracy. The constitution also allowed for referenda and popular legislative initiatives. Such provisions of participatory democracy and a spirit of collaboration, itself a legacy of the anti-fascist resistance, contributed to the constitution's legitimacy, even though contrary to the wishes of the Left, it was informed by the values of Catholicism and mixed economy.

Moreover, the constitution subordinated regions to the central government, even though it included the principle of regional autonomy.[11] It also gave the President of the Republic a balancing role with regard to political parties contending for power. The electoral system was that of proportional representation, allowing for the formation of successive coalition governments. The tendency to form successive coalition governments, turned out to be a major trait of post-war Italian democracy, which only superficially can be interpreted as political instability, as the same center-right politicians periodically occupied different ministerial posts.

The center-right coalition headed by the DC, pursued a pro-Atlantic policy, and desired to firmly anchor Italy to the West. Italy joined the Atlantic Pact in 1949. After its victory in 1948, the DC enforced its plan for rapid industrial development, export-led growth, but also preservation of uneven development, and traditional political control of the state. Uneven development was exemplified in Italy's dual economy, as the north-south divide; the discrepancy between the advanced industrial export-oriented sector; and the domestic demand-driven industrial and agricultural sectors, became Italy's permanent feature.

Political control was evident in Italy's patronage-ridden public administration and clientelistic welfare state. The Italian post-war public administration was not in a position to manage the complicated tasks of receiving and administering emergency aid to the population, let alone large-scale projects such as the Marshall Plan. The administration retained its opaque and inefficient character. Generally, after the war, the Italian political and administrative institutions were subjected to the counterproductive effects of *partitocrazia*; i.e. the penetration of every policy sector by political parties, and *lottizzazione*; i.e. the division of administrative functions and spoils among parties of the governing coalition of the day.[12] These two traits compromised the management capacity of the central public administration.

In order to embark on reconstruction and preparation for Italy's economic development, the DC government collaborated with foreign agencies, such as the Economic Cooperation Administration (ECA/I), the agency which oversaw the ERP's implementation. The government also worked through state agencies, which were autonomous from the central public administration. These took the form of autonomous public boards, such as the IRI (the pre-war state institution mentioned in the Introduction of this paper), and the Cassa per il Mezzogiorno, responsible for the development of Southern Italy.[13]

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[10] Sapelli (1995: 165).
[11] Sapelli (1995: 164).
[12] See Sotiropoulos (2006: 206) and the references therein.
[13] Raftopoulos (2009: 5-6).

In Greece, just after the end of the war in September 1944, a coalition government, including a few ministers of the Greek communist party (KKE), was formed. Authorities tried to stabilize the currency, as inflation was climbing, but trust between the government and the Left quickly broke down as the armed confrontation of December 1944 in Athens unfolded. After this first stabilization failure, a second effort at monetary stabilization in 1945 also failed, as the ministries involved did not really have the administrative capacity to implement policies. As in the case of Italy, short-lived governments of the Right and the Centre succeeded one after another in power, in the first years after the end of the war. Further on, government revenue was difficult to collect, as business elites resisted taxation.[14]

Overall, in 1944-45 Greek administrative institutions were very fragile, while the party system was very fragmented, and the unresolved question of whether Greece would be a monarchy or a republic, aggravated the situation.

The 1946 was a crucial year in which parliamentary elections and a referendum on the monarchy took place. The KKE abstained from the March 1946 elections that brought to power a right-wing, pro-royalist government: the right-wing People's Party, led by Constantine Tsaldaris, and its smaller allies gained 55 per cent of the vote.[15] The government pressed for the referendum, which took place in September 1946, was probably rigged and restored the monarchy. In the meantime, the Civil War had started and under pressure from the British, the government was dissolved, in order to allow a broader coalition of right-wing and centrist parties to fight this war.

The new coalition government comprised the People's Party and the centrist Liberal Party, under Themistocles Sofoulis. These two parties were direct heirs of the inter-war parties, bearing the same titles. They were responsible for the extended and divisive political conflicts that had marred Greek politics in the inter-war period and for the traditional patterns of patronage in Greece's political and administrative institutions. In the period just after the Second World War, no political figure comparable to De Gasperi rose in Greek politics, and no political party became hegemonic, while the Civil War posed an additional challenge for the fragile post-war Greek regime.

The aforementioned coalition government stayed in power for the full term of this war, but was tormented by splits in the parliamentary groups which supported it, and by cabinet reshufflings. It must be mentioned that in contrast to Italy, there were 15 successive governments in Greece in 1944-52, and in addition three caretaker ones.[16]

In the elections of 1951, the Liberal Party and the centrist EPEK party obtained 43 per cent of the vote and formed the last coalition government, before the emergence of a stong right-wing party. This was the Greek Rally, headed by the former General Alexander Papagos. He swept the elections of 1952, and formed the first in a long series of single-party majoritarian governments in post-war Greece.

What kept together the right-wing and centrist parties forming successive coalition governments in 1944-52, was the anti-communist ideology they shared, and the close supervision to which they were subjected, initially by the British and then by the Americans. The latter, following the Yalta agreements with Stalin, were determined to keep Greece in the

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[14] Kazakos (2001: 69).
[15] Kostis (2013: 704-5).
[16] Interview with the political historian Professor Ilias Nikolakopoulos, Athens, 20.07.2013.

Western camp. The British continued to provide the Greek government with financial and military aid until 1947. Then they handed the task of monitoring the Greek affairs, and aid to Greece to the Americans.

4 Initial post-war programmes of aid and reconstruction

4.1 Post-war emergency aid to Italy

At the end of the war, compared to Germany and other allies of the Axis, Italy held a peculiar middle-ground position. Italy belonged to the camp of defeated, while it had been a major theater of war in 1943-45. It also enjoyed preferential relations with the victors of the war, who did not consider it a country to be sanctioned, but one to be rescued from economic collapse, and shielded against the possibility of joining the pro-Soviet camp.

While such a position gave Italy a comparative advantage over other former enemies of the Allies, initially it did not receive any economic aid. The Allied Military Government (AMG) placed Italy under the supervision of the Allied Control Commission, an agency in charge of simply overseeing, rather than supporting the reorganization of the Italian state and economic recovery. This strategy proved insufficient in the face of famine, inflation, and black market, which ravaged Italy in 1943-44.[17]

In 1944, there was a failed attempt at government aid and land distribution, namely the Grillo reform programme, after the name of the then communist Minister of agriculture.[18] The reform failed due to political opposition, while at the time governing elites were overwhelmed by the scale of social and economic problems of Italy.

Moreover, for two years after the end of the war in 1945-46, the US, claiming that it did not have a reliable interlocutor in the Italian political system, refrained from channeling aid, food, and raw materials to Italy. Economic and material aid would be dispensed to Italy only in 1946 under the UNRRA, and in 1947 through the US relief programme called Interim Aid (IA).[19] Aid would be provided to Italian state agencies, which in turn would distribute it to businesses and the population. The US changed its policy because it realized that, as the Cold War started unfolding, it could not afford to 'lose' Italy to the camp of the enemy. This was a remote but still considerable possibility, in case social inequalities and grievances in post-war Italy led to the election of a communist government in Rome.

The UNRRA provided relief to populations residing in areas, where there was a lack of food, fuel, clothing, and shelter because of the war. It distributed commodities and was active in Italy, Greece, and other war-torn zones. Italy, which started receiving the UNRRA aid in 1946, was one of the largest recipients of such commodity aid. It amounted to US$418 million, which roughly was 11 per cent of all the UNRRA aid. The UNRRA's foods, fuel, and medicines were sold on the Italian market in order to start the 'lira fund'. This was meant to fund reconstruction projects, under the UNRRA's approval.

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[17] Raftopoulos (2009: 8-9).
[18] Furlong (1994: 56).
[19] Interim Aid was provided to France, Italy, and Austria, by a decision of the US senate, because of 'the fear of communist disturbances in France and Italy', as the journal *The Spectator* put it (*The Spectator*, 5 December 1947).

In September 1947, Italy and France demanded and received additional aid from the US, the aforementioned IA. Italians convinced their donors by underlining the scarcity of wheat and coal, and the possibility that food shortages may have led to increased communist influence. The IA fund also included aid for Italy to buy raw materials, necessary for industry. It thus contributed both to the continuation of industrial production, and to the provision of foodstuffs, sparing the Italian government of having to make a choice between the two.[20]

In 1946-48, before the ERP, international aid to Italy was constrained by multiple contradictions and conflicts. First, in 1946, the Italian government pursued liberal economic policies, formulated by the Minister of Treasury, Epicarmo Corbino, whose policy measures clashed with the policy recommendations of the UNRRA. Corbino dismantled controls on the economy, which had been left over from the fascist period, hoping that he would thus create private investment and growth, and he also insisted on a balanced budget.

The left-wing parties, the PCI and the PSIUP, on the other hand, set as their priority the preservation of and improvement on the living standards of the working class, which had been undermined by the lack of basic goods and inflation. They wanted to preserve wages and consumption, while Corbino, a staunch liberal, wanted to shift resources to savings and investment.[21] His policy may have been sound to save the Italian lira, but it impacted heavily on wages and salaries. The Left won a partial victory by continuously confronting Corbino, who eventually resigned in September 1946.

In October 1946, De Gasperi's government launched a ‘Reconstruction loan’. It originally aimed to finance public spending, but in practice it increased funds available to banks, and contributed to worsening speculation and stockpiling rather than investment.

A second contradiction emanated from the conflicting growth strategies of the Italian government and the US, on the one hand, and the UNRRA, on the other. The Americans and the DC government, supported by the business elites, pursued export-led growth. This strategy allowed larger profits for exporting businesses, but was also meant to stimulate investment in Italy, based on revenue from exports. The DC government also pursued monetary devaluation, bilateral trade, and support to firms. It did not want to increase demand through public spending.[22]

The UNRRA, however, pressed the government to stimulate domestic demand, and required that industries produce goods, such as textiles, for local consumption. Italian businessmen, however, preferred to siphon profits abroad or to engage in private speculation, as they did not trust the government, which at the time (1946) still included communists and socialists among its ranks. The Italian Government was also at odds with the UNRRA’s officials in Italy,[23] and complained that the latter interfered with the governing of the country.

The Americans sought to force their way through this conflict by cutting off funds to the UNRRA, after the end of 1946, and rescheduling international aid. They were soon to channel new aid to Italy, as they perceived a new set of problems in Italy and the rest of Europe. First, the Italian municipal elections of November 1946 signaled a rise of anti-government political forces. In those elections the DC lost about 100,000 votes in Rome and

20 Raftopoulos (2009: 9-11).
21 Harper (1986: 89).
22 Raftopoulos (2009: 14-5).
23 Harper (1986: 97).

40,000 in Naples while, in the wake of the rising popularity of communists and socialists, De Gasperi faced challenges from the right-wing of his party; i.e. business elites and the Vatican.

Second, the economic situation deteriorated and called for financial stabilization. Food stocks, previously dependent on the UNRRA supplies, fell. Investors turned their back to a public loan issued by the Italian treasury, and inflation continued unabated.[24] Price controls were impossible to impose in Italy, as they fueled the black market. For instance, only six per cent of medicines sent to Italy between September 1945 and March 1946 had been distributed, while the rest ended in the black market.[25] Moreover, Italians desperately needed wheat and coal. The Italian Prime Minister, Alcide De Gasperi, obtained such emergency raw material provisions in a trip he made to the US in January 1947. He also concluded an agreement for the credit of US$100 million, which was to be extended to Italy's state-controlled banking institution, Instituto Mobiliare Italiano (IMI), plus another US$50 million in suspense account money.[26]

Having received American reassurances for continuous support, De Gasperi dissolved the government in May 1947 and reshuffled it, this time without including the parties of the Left. The new government, consisting exclusively of the DC politicians and five liberals, represented the interests of the Italian business elites and middle classes, and set out to stabilize the lira, while waiting for the ERP aid.[27]

4.2 Post-war emergency aid to Greece

The UK offered Greece a loan of GB£10 million in January 1946, under the condition that the Greek Government would follow a concrete stabilization programme called the London Agreement. The British aid package did not only include funds, but also credit for Greece to buy food, machinery, spare parts for vehicles, and even commercial boats, in addition to the separate military aid, continuously provided by the UK to Greece in 1946 and until the mid-1947.[28]

In exchange, the Greek Government agreed to the appointment of British officials in the central services of various ministries in Athens, and also agreed to the establishment of a Currency Committee, staffed by Greek officials, as well as one British and one American advisor with veto powers.

There was, however, no firm political will to pursue a steady reconstruction and stabilization policy. No parliament was in session, as the last parliament had been elected in 1936, and was dissolved in that year by the Metaxas' dictatorship. Between the autumn of 1944 and the spring of 1946, when elections took place, five different Prime Ministers headed governments, usually handpicked by the British. In the meantime, the public administration was shaken, as successive governments were preoccupied with purging communists and left-wing sympathizers from the civil service.[29] These problems, coupled with the distrust shown

[24] Harper (1986: 107-8).
[25] Harper (1986: 94).
[26] Harper (1986: 115).
[27] Raftopoulos (2009: 14).
[28] Kazakos (2001: 70, 75).
[29] Close (2002: 21).

by foreign officials towards their Greek counterparts, made reconstruction and stabilization an unpredictable task.

It is no surprise then that further efforts to stabilize the Greek economy failed. The British mission in charge of managing aid to Greece tried to curb inflation by liberalizing trade, and allowing the sales of gold sovereign by the Bank of Greece. Its initiative was met with opposition from all sides, including government circles. It turned out that there was an obvious lack of cooperation between foreign advisors and Greek politicians, which resulted in the London Agreement's failing to accomplish its objectives.[30]

Yet, Greece was also one of the largest recipients of the UNRRA commodity aid, amounting to US$415 million.[31] This was around nine per cent of all the UNRRA aid (while Italy had received eleven per cent). At the time (1944-46), Italy had approximately 43 million inhabitants, while Greece seven million.[32] If we divide the total value of the UNRRA aid supplied to Greece with the total of Greece's population, we find that Greeks received US$59 per capita. The corresponding total value for Italy was US$418 million, and the per capita the UNRRA aid to Italians amounted to US$10. Clearly, the UNRRA was more generous to Greece than to Italy, probably because Greece had been a poorer country even before the war, and it had undergone a four-year long, tremendously destructive occupation by the Axis forces. Voluntary associations of Greek Americans also supplied aid to Greece. In 1945-46, the value of total aid sent to Greece, amounted to 70 per cent of the country's national income in 1939.[33]

Tensions between the UNRRA officials and Greek authorities emanated from the lack of trust of the former towards the latter, as Greek officials were thought to distribute aid on a patronage basis.[34] There were also tensions among Greek officials, since liberals, such as Xenofon Zolotas disagreed with interventionists, such as his co-governor of the Bank of Greece, Kyriakos Varvaressos. When in 1946, the latter, in his capacity as Minister of Supplies, tried to impose new direct taxes on the income of the business elites; he met with their fierce resistance and was forced to resign.

Starting in May 1947, after the British had declared that they lacked the resources to keep the Greek political system and economy afloat, the US stepped in. The Truman doctrine, announced in that month, involved military and economic aid to Greece and Turkey, which were perceived as strategic front-line partners of the US, in its confrontation with the USSR. The doctrine aimed at shielding these countries from communism. In 1947-49, the total value of military aid given to Greece surpassed US$350 million. Economic aid under the Truman doctrine accelerated the construction of infrastructure and endowed Greece with roads, bridges, railways, and ports. The US aid was also cardinal in the expansion of Greece's merchant fleet, in the provision of medical supplies, as well as supplies for sanitation and hygiene, and the training of medical staff.[35]

The Americans were better prepared than the British to confront Greek reality, because they had planned ahead through a mission, sent to Greece in the early 1947, under Paul Porter.

[30] Vetsopoulos (2009: 279-81).
[31] Kazakos (2001: 65).
[32] Maddison (2007).
[33] Close (2002: 16), citing research by S. B. Thomadakis.
[34] Kazakos (2001: 65).
[35] Close (2002: 34).

The latter wrote the Porter Report, in which he suggested a host of measures to uplift the Greek economy. The aid was managed by the American Mission for Aid to Greece (AMAG). This Mission originally focused on supplies and projects for the reconstruction of Greece, which it provided to the Greek Government. In the last two years of the Civil War in 1948-49, the AMAG shifted its priorities to military aid, in order to help the Greek government avert the communist takeover of power. The AMAG officials imposed price controls, helped control inflation, and placed restrictions on the sale of gold. Further on, using the Truman doctrine funds, the AMAG also contributed successfully to balancing the budget and the balance of payments. Essentially, it paved the way for the Marshall Plan's implementation.[36]

5 The Marshall Plan (The Economic Recovery Programme)

In 1947, the US reckoned that the economic misery, at which masses of Europeans continued to live two years after the end of the war, and the influence of communist ideas in European countries, such as Greece, Italy, and France, called for a systematic response, if the US wanted to rely on its West European partners in its confrontation with the USSR. The systematic response was the ERP, and was announced by the US Secretary of State, George Marshall, in June 1947 in the form of a 'Plan', which thereafter bore his name.

The ERP was a reconstruction plan that lasted in 1947-51, and offered close to US$13 billion (in contemporary prices) to European countries affected by the war. It aimed at contributing to their economic recovery and political stabilization. Under pressure from the USSR, East European countries rejected the offer of the plan, which eventually was channeled to Western Europe. In July 1947, representatives of the countries at the receiving end of the plan met in Paris. They formed the Organization for European Economic Cooperation (OEEC, later renamed to OECD), an organization originally destined to help manage the ERP funds.[37]

As Table 2 shows, the sum of the ERP aid to Greece and Italy was quite large, if compared to amounts received by other South European countries.

Table 2: Size and distribution of the Marshall Plan Funds in southern Europe

South European Country	Total 1948-51 (US$ millions)	% share for each country
Greece	515.1	4.4%
Italy	1315.7	11.2%
Portugal	50.5	0.4%
Turkey	152.5	1.3%
Total of Marshall funds for all European countries	11780.5	100.00%

Source: Elaboration of data from Gerard Bossuat (2008).

Greece may have shown larger improvement with regard to industrial production in 1947-51 (see Table 3), but it had started from a much thinner industrial base. While Italy used to have

[36] Vetsopoulos (2009: 282, 284).
[37] Calvocoressi (1991: 174).

both heavy and light industry, Greece specialized in light industry, particularly textile production.

Table 3: Industrial production in Greece and Italy, 1947-51 (1938 = 100)

	1947	1949	1951	% change 1951/1947
Greece	69	90	130	88
Italy	93	109	143	54
All Marshall Fund recipient countries	87	112	135	55
All Marshall Fund recipient countries excluding Germany	105	130	145	37

Source: Adapted from Eichengreen (2007).

5.1 The Marshall Plan in Greece[38]

The Marshall Plan came in time for Greece, as in February 1947 the British had announced that they were going to end aid within six weeks.[39] The Plan was instrumental in helping Greece accomplish four tasks: first, fund imports including consumer and capital goods, and raw materials necessary for the Greek economy; second, sell low-cost goods to Greece alleviating pressures on the Greek budget deficit; third, buy gold sterling pounds; and fourth, foster investments in the private sector and rebuild Greece's infrastructure.

In Greece, the ERP was managed by the Economic Cooperation Administration for Greece (ECA/G). Following the AMAG, it also allowed for the sale of gold in order to stabilize the Greek currency’s (drachma) exchange rate. It controlled the currency circulation and provided credit to enterprises, through a newly established body, the Central Loan Committee (CLC). ECA/G launched a futile battle to rebalance direct and indirect taxes, as tax revenue came disproportionately (80 per cent) from indirect taxes, and to have the Greek upper classes pay their taxes and the government to collect them.[40] On the other hand, it did not allow for increases in wages for workers and employees, in order to avoid further inflationary pressures. This policy choice of course revealed the conservative profile of the then serving Greek government, who were unable to solicit the support of the upper classes, but would not dare rely on the labouring classes either.

Could Greece have taken alternative routes in the context of implementing the ERP? In the wake of the Second World War, there was a strong current of thought in Greece among the elites, including economists, according to which the country was not fit to take the road to industrialization through state intervention and injections of foreign aid to the industrial sector, and the building of infrastructure. Nor would Greece be, according to the same opinion, better off if it abandoned its traditional economic policy that favoured primary

[38] Major works covering this topic are Stathakis (2004) and Sfikas (ed.) (2011).
[39] Harper (1986: 120).
[40] Vetsopoulos (2009: 285).

commodity production and naval commerce. For a population, pockets of which lived in the inter-war period near or below the poverty level, it was more advisable to produce agricultural products and export what remained thereof, after the population's basic needs have been fulfilled. After all, most Greeks still worked in the agricultural sector, as they had done in the inter-war period. Rapid industrialization, bringing about job growth, was not insight after 1944. This line of argument, which was prominent until the onset of the Truman Doctrine and the Marshall Plan (1947), was criticized by thinkers of the Greek Left, who were in favour of rapid, state-led industrialization.

In the words of Andreas Kakridis, who has aptly summarized the logic of the anti-industrialization argument of that era, ' … in a poor country with widespread un- and under-employment, creating jobs and raising per capita consumption were the top priorities…Given agriculture's relative size in the economy and its labor-intensity, primary sector investments would ensure a much more rapid and widespread rise in living standards (per unit of invested capital) than would energy production and manufacturing.'[41]

Another alternative route to development would have materialized, if the winners of the Greek Civil War were the communists, instead of the pro-Western political forces. In that case, if for example Greece had followed the development route taken by Bulgaria and Romania, it would have then experienced the centrally planned and coercive industrialization, which the two Balkan countries adopted. (Of course one may think of Greece becoming another Yugoslavia in the post-war period, although Greek communist party leaders of the time never showed any tendencies to doubt, let alone sever, their ties to the USSR). This route was not taken, as the communist army was defeated in the Civil War in 1949, and its fighters either left the country in that year, or were later severely oppressed by security authorities.

But why was not the first of the two alternative routes mentioned earlier taken, since Greek Government's officials and pro-government economists, such as Xenophon Zolotas, originally favoured it? Kakridis plausibly argues that the reasons for a change of heart among Greek decision-makers were several.

First, the ERP was a plan oriented to state-monitored industrialization, including investments in infrastructure. The managers of the ERP posted in Greece, most of whom were Keynesians, closely monitored the ERP's implementation, working closely with Greek officials. The pouring of funds from the ERP to Greece, which were not channeled primarily to agricultural development, clearly had an impact on dominant policy ideas. Indeed, the pouring of foreign aid to industrial and infrastructural development made development based on agriculture an outmoded idea.

Second, the policy choice of industrial development, which included the promise of higher living standards, should be interpreted in the context of the Greek Civil War. The Left had always accused the Right of being backward. Progressive thinkers had already put forward the prospect of modernization through industrialization. By adopting such as a policy choice, also prevalent in other Western nations of the immediate post-war era, the Greek Government gave a prospect of better future to pro-government Greeks, enhanced its political legitimacy, and fought a war of ideas in parallel with waging war against the communist army.

[41] Kakridis (2009: 248).

Third, the shift in policy ideas towards adopting state-led industrialization, rather than entertaining ideas of agrarianism or nineteenth century economic liberalism, was promoted by Greek engineers.[42] The latter formed a strong and well-trained group of professionals who, not only served their own interests by supporting industrialization, but also reflected the spirit of the era (Zeitgeist) in the advanced economies: technocracy and industry, which would bring about growth, provided solutions to most problems humanity faced in the post-war period.

And fourth, as far as institution-building was concerned, the spread of ideas about state-led economic development, ' … gave rise to multitude of state agencies ministerial departments, and specialized committees whose very existence and modes of operation were linked to the prevailing development orthodoxy.'[43] An early example was the powerful Currency Committee, founded in 1946. Other examples were the Greek Telecommunications Organization (OTE) founded in 1949, the Public Power Corporation (DEI) founded in 1950, as well as state-run cooperatives of tobacco and olive oil producers.[44] Funding from the ERP also helped rebuild the port of Piraeus and part of the national railway network, and produce hydroelectric power through the construction of dams in rivers in Central Greece.

The new institutions, which resembled Italy's parastatal institutions and were founded in the context of managing foreign aid to Greece, in turn, impacted on the level of ideas. Such institutions consolidated the supremacy of policy-makers, who were in favour of embarking on industrialization based on the free market, but closely monitored by the state.

However, Greece's industrialization drive was not comparable to Italy's. After all, Greek entrepreneurs themselves were ambivalent about the prospect of industrialization.[45] After 1950, however, industry-based growth was tempered by concerns of monetary stability, eventually leading to the devaluation of the Greek currency.

Thus, in 1948, Greece formulated a four-year economic recovery plan, which however, in contrast to the corresponding Italian plan, did not opt out to combine international aid with heavy industrial development, but some industrial development combined with the production, and export of raw materials and energy. The 1948 plan entailed that the budget should be balanced and that any state intervention should be short-term. Moreover, as in the past, the public administration was anyway considered incapable of carrying out any complicated tasks. In other words, administrative and economic policy legacies mattered. Moreover, Greek elites lacked the long-term vision and pragmatism of Italian elites, which will be discussed in the next section of this paper.

As in the case of Italy, the years during which Greece absorbed the ERP funds, were characterized by periodic accusations of corruption against Greek officials.[46] Such accusations became part of the constant bickering among Greek right-wing and centrist parties, which endlessly joined and split from coalition governments. Accusations were never really investigated, but contributed to a climate of suspicion and distrust, which was not conducive to the exploitation of the full potential of the ERP for Greece.

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[42] Kakridis (2009: 259).
[43] Kakridis (2009: 264).
[44] Kazakos (2001: 150).
[45] Kazakos (2001: 100-1, 106).
[46] Kazakos (2001: 95).

In contrast to the case of Italy, the outbreak of the Korean War did not mean a transition to a new phase of development. Greece was still struggling with financial stability, and was still unable to absorb the comparatively vast funds of aid, which it continued receiving. Again, after the end of the Civil War in 1949 and despite the ERP, Greece proved unable to stabilize its currency, and to avert inflation. The problem would be solved through a new stabilization programme, masterminded by the ECA, which started slowly in October 1951, and ended successfully, with the enforced currency devaluation in the spring of 1953.[47]

The implementation of the ERP in Greece obviously set the foundations for, and quickly revealed what was to become a long-term and heavy dependence of Greece on the US. We could argue that, at the same time, the ERP's implementation allowed for a tacit agreement between foreign sponsors and domestic elites, of a kind to be encountered in Italy under a different form. Greek governing elites essentially conceded decision-making power to the ERP officials, particularly as far as the formulation of policies was concerned. In exchange, they were tacitly given a free-hand in continuing to make patronage appointments, and dispense licenses and welfare benefits, in a less than transparent or meritocratic fashion.

Under this tacit agreement, the tasks of programming and planning were left to foreigners. As Evanthis Hadjivassileiou puts it, ' … even the almighty Americans in the years of the infamous dependence could not fully succeed in defeating Greek clientelism.'[48]

This failure to curb patronage, however, should not lead to an underestimation of the ERP's importance for Greece. The programme may have not been able to change the mentalities of Greek governing and business elites, but offered the financial and institutional means for Greece's delayed development, the 'Greek economic miracle' of the 1960s, which was preceded by the 'Italian economic miracle'.

5.2 The Marshall Plan in Italy

The emergency aid programmes, which had been distributed earlier to Italy (UNRRA, IA), gave its economy some breathing space, but did not constitute a real solution to its travails. Such a solution would come with the arrival of George Marshall at the State Department in January 1947, and the preparation of his Plan. Further on, in the spring of 1947, the US President Harry Truman had the US Congress pass an aid bill for Greece and Turkey amounting to US$400 million. As Italy was not at the forefront of the Cold War battlefield, Truman earmarked only US$107 for this country. Italy, however, at the time was suffering from a steep drop in the free-market value of its currency and a rising cost of living, which had increased by almost 50 per cent between December 1946 and March 1947.

A wave of popular unrest followed in April 1947, and was accompanied by speculation and profiteering.[49] In May, De Gasperi resigned, dissolved his tripartite coalition government, and in an abrupt move formed a new government, this time consisting only of the DC politicians and technocrats. In June, De Gasperi won a narrow vote of confidence, just a few days before Marshall's official announcement of the ERP.

[47] Vetsopoulos (2009: 293).
[48] Hadjivassileiou (2010: 16).
[49] Harper (1986: 122).

In Italy the ERP was naturally welcome, but the policies which the US managers of the Plan considered necessary for Italy, were not as well received. As Esposito points out, the Italian Government had formulated its own economic policy aims, which roughly corresponded to three successive phases. [50] In 1944-47, Italy's main aim was basic reconstruction; in the wake of DC's electoral victory and the exclusion of the PCI from the government in 1948-50, the aim was to fight inflation and achieve monetary stabilization. Moreover, after 1950 the aim was investment, in order to foster industrial growth and higher employment.

Indeed, at the same time, the Italian Government prepared a four-year plan (1948-52) of industrial reconstruction. The 'Saraceno plan', named after its author, a well-known Italian economist, was meant to entrust two state agencies; the Bank of Italy and the IRI, with the responsibility to steer industrial development and to prepare Italy's participation in the absorption of the ERP funds.

Over 1948-50, contrary to some American expectations, the Italian Government did not absorb the Marshall Plan resources rapidly, in order to increase investment, create employment, and achieve higher living standards for the lower-income strata. The political aim to palliate the post-war economic misery of the masses through the Marshall Plan and prevent their radicalization was not a priority of the DC.

Indeed, already before 1948, Luigi Einaudi, the Governor of the Bank of Italy and minister in charge of the state budget, along with other policymakers and politicians, had favoured private instead of state-led initiatives in the market, and an open economy instead of protectionism. Italian political elites were pragmatist, opting for state intervention in the economy, whenever it was absolutely necessary, but did not compromise their basically anti-interventionist, liberal beliefs. According to Harper, they counted on a relationship of *mutual dependence* they had forged with the Americans.[51]

Sapelli described the situation otherwise, claiming that the US officials and Italian elites made an *exchang*e.[52] The former conceded to the latter's deviating from Keynesian economic policies; e.g. through opening the economy to external markets. In exchange, the US had the Italian elites to control the communists, and prepare their expulsion from the government. The exchange was evident after 1946, when Italy decided to 'save the lira', almost at any cost, through a strong deflationary line. Deflation, along with the prevalence of speculation rather than investment by Italian entrepreneurs, brought about high unemployment and a slowdown in reconstruction.

Einaudi, while never completely rejecting the idea of public intervention in the economy, did not espouse the Keynesian policies, which at the time were popular among some New Deal American economists and policymakers. After Einaudi became President of the Republic in 1948, Prime Minister De Gasperi and his Minister of Finance, Giuseppe Pella, followed the same line. Even though the Marshall Plan had been proclaimed since June 1947, giving not only a financial impetus to beneficiary European economies, but also a signal to European policymakers that state-planning was desirable in economic development, in Italy this 'philosophy' of the plan was not at all reflected in major economic policy decisions. For instance, the DC government provided funds to industrialists to foster industrialization in

[50] Esposito (2011: 176). This article reflects her argument presented in Esposito (1994).
[51] Harper (1986: 5).
[52] This point is extensively presented by Raftopoulos (2009: 6-7).

1949. It did not provide funds to help reduce socioeconomic inequalities, in a country coming out of war, and replete with pockets of poverty.[53]

Despite pressures from the US throughout 1948-1949, the Italian Government did not proceed to apply policies to absorb unemployment, after achieving monetary stabilization. It chose to depress public expenditure and to avoid raising taxes, a choice explained by the upper and middle class' social interests, which the DC represented.

In response, the Americans threatened to cut part of the ERP's second year aid; i.e. to enforce US$85 million cuts, after another US$50 million cuts implemented in 1948.[54] The Italian Government held out until the end of 1949, when the third stage of Italy's post-war economic evolution started, after the two initial stages of reconstruction and stabilization. The third stage included trade liberalization, decrease of taxes on foreign goods, and industrialization, with the help of the ERP.

In brief, the DC government pursued restrictive economic policies until 1950, reflecting the pro-liberal economic culture, which traditionally prevailed among Italian economists, but also retained the IRI as this was a tool which the DC could put to economically and politically beneficial use. It was only after the outbreak of the Korean war (June 1950) that the worldwide increase in demand stimulated investment, including state investment, and job creation.[55]

Even then, however, the Italian Government implemented a public expenditure strategy which was not truly Keynesian, as the ECA would have preferred. Instead of supporting domestic demand, boost employment and wages, the DC government chose to aid heavy industry and distribute welfare on a patronage basis, winning thus the support of northern industrialists and the elites of the Italian South. The ERP funds were used to acquire new industrial plants and machinery for automobile industries and to purchase large generators for the power supply industry. The ERP funds were also channeled to iron and steel industries, for instance to the Cornigliano steel plant in Genoa.[56]

The ERP included funding for the Italian South, but as the case of Sicily shows, the Italian Government did not have a long-term plan for the South's development. It limited itself to contingent measures; e.g. granting small credit facilities, and did not proceed with agrarian reform. It was only in the context of the Korean War that the ECA and the Italian government shifted their policies for Sicily, and started exploiting the island's sulphur and oil resources. Overall, however, compared to the North, Sicily received a minor share of the ERP funds. It counted ten per cent of the Italian population, but received only four per cent of the counterpart fund. Sicily benefited from imports of wheat, flour, and penicillin, but this was a far cry from the capital goods channeled to the industries of the North.[57]

The reason why the Italian Government had more room for manoeuvre with regard to policy choices than one would think in an ailing economy, lied in the relatively feeble opposition to the DC, after its victory in the 1948 elections, and in the differences of opinion among the Americans of the ECA. There were wide differences of opinion with regard to policy mix and

[53] Raftopoulos (2009: 6).
[54] Raftopoulos (2009: 16-17, 19).
[55] Esposito (1994: 180).
[56] Raftopoulos (2009: 20-1).
[57] Raftopoulos (2009: 23).

the timing of policy measures among the Americans. Italian policymakers of the time, always skeptical of Keynesianism, exploited such differences of opinion, in order to postpone heavy public investments in the economy. Eventually, even though dependent on international aid, Italian institutions played the role accorded to them by the government. Policymakers shaped the mix and the timing of policy measures, through a pro-liberal, selective approach to the ERP.

6 Conclusion

The international aid to Italy and Greece, after the Second World War, was a necessary but not sufficient condition for the two countries' economic and institutional development. Immediately after the end of the war, the Greek and Italian economies were in shambles, while political and administrative institutions and economic resources were too feeble to foster change.

This conclusion probably holds more for Greece than for Italy, which proved able to start its reconstruction before the ERP, and after the latter's launch followed an economic policy quite autonomous from the policy preferences of the ERP officials.

While in Italy reconstruction and the expansion of resources would have been impossible without large-scale aid from abroad, the uses to which such aid was put were crucial for the outcome of development effort. In the words of Harper, ' … the United States could threaten and cajole, but the fate of American policy remained very much in the hands of Italians themselves.'[58]

In both Italy and Greece, however, the ERP was instrumental in achieving political stability by making plain to governments of the two countries that they enjoyed US backing, and to the local populations that while the Cold War was raging, both countries were firmly anchored to the West. In other words, the political significance of such international aid may have been more important than its economic significance.

In Greece, international aid helped the population survive by offering food and shelter to displaced or extremely poor persons, build infrastructures, and win the war against the communist army. In Italy, by contrast, the conflict between the Right and the Left never overflew the banks of parliamentary democracy. Italian politics of the 1940s and the 1950s was much more predictable than Greek politics of the same era, and this rendered aid to Italy more consequential than aid to Greece.

Such political stability contributed to Italian economic development, even if that meant that middle- and low social strata had to settle for large income and regional inequalities. Also Italian elites shared a culture of promoting heavy industrialization, facilitated by pragmatist liberal policies.

Greece, by contrast, did not reap the benefits of international aid to the same extent. Its governing elites, as well as the Left, were first consumed by an exhausting Civil War in 1946-49. Even after 1949, Greece had a dysfunctional democratic regime, namely a crown democracy, in which the army, the palace, and the right-wing elites excluded the Left from politics.

[58] Harper (1986: 106).

The different post-war historical trajectories of Greece and Italy render sharp the contrast between the roles of domestic political, business elites, and interest groups. The role of the former and the latter differed in the two countries, and resulted more rapid economic development and more stable political trajectory in Italy, in the 1950s and the 1960s. Such a trajectory effectively entailed the political exclusion of the Italian Left from the centres of power, but did not entail a military coup d'état of the kind that Greece experienced in 1967.

To sum up, after the end of the war, both Greece and Italy experienced a Left-Right political polarization and a reproduction of earlier patterns of political patronage. Both Italy and Greece received international aid, including emergency relief, interim loans, and Marshall Plan funds. By the beginning of the 1950s, the Italian economy had recovered better from war destruction and had achieved industrial growth faster than Greece. Italy progressed quite rapidly from stabilization to reconstruction, and then on to development, while Greece progressed with reconstruction, but did not achieve stabilization until after the end of the Marshall Plan.

Italy and Greece were obviously different with regard to population and market size, but the different outcome of international aid in the two countries is probably explained by historical legacies and conjunctures, as well as series of institutional, cultural, and political factors. Presumably, one could set aside such factors and offer alternative explanations of Italy's better performance in the immediate post-war period compared to the performance of Greece.

For instance, one explanation would be that the Italian population and domestic market were much larger than that of Greece, and thus economic growth would have anyway been easier in the former case than in the latter. However, market size and population do not suffice to promote growth, as it is evident by many large countries of the developing world, in sub-Saharan Africa and South Asia, which are struggling to develop but have achieved very uneven results over time. As Acemoglu and Robinson have argued, successful nations, large and small, achieve prosperity, regardless of their size, after having established stable but non-extractive institutions, which function smoothly for extended periods of time.[59] The analysis in this paper suggests that compared to the case of Italy, institutions were frail and under constant challenge in Greece. In the latter country, reconstruction after the war coincided with a challenge of political stability and regime change, associated with the Civil War.

Another different explanation of the perceived differences between Greece and Italy would insist that the two countries were bound to develop at different pace and in different directions after the war, since they stood at a different starting base just before the war. In 1939, Greece's gdp was about one eighth of Italy's gdp.[60] However, as mentioned in the introduction of this paper, war caused extensive destruction to the industrial base of the Italian economy. In 1943, as the German army departed from Southern Italy, it 'methodically destroyed machinery, power plants, and other utilities.'[61] In other words, war drastically and adversely affected the chances of Italy's economy recovery, as of course was also the case with Greece.

[59] Acemoglu and Robinson (2012),
[60] Own calculations, based on figures provided for the year 1939, for Greece's and Italy's gdp, in Maddison (2007).
[61] Harper (1986: 26).

Still, one cannot argue that the two countries under study started at a level-playing field when the war ended, as before 1940, Greece had a weaker economy than Italy. Yet, the pre-war Italian economic achievements did lay down an inescapable path for Italy's development after the war. High performance in the pre-war period, would not have guaranteed future achievements, unless foreign and domestic factors had combined in a fruitful fashion after the war.

It is then more plausible to argue that not so much market size, population, or past economic achievements, as political, cultural, and historical factors, combined with the successive waves of aid outlined in this paper, explain the observed differences between Greece and Italy, after the war was over.

There are several historical legacies and conjunctures differentiating the two cases, Greece and Italy, and leading to different outcomes by the beginning of the 1950s. Greece underwent a disastrous Nazi occupation (1941-44) and a destructive Civil War (1946-49), of which Italy was spared. The Italian public sector was endowed with state agencies steering economic development, which the Greek public sector lacked until the late 1940s.

Italian elections resulted in more stable governments, led by the DC party, which more or less followed their own policy choices, often deviating from the donors' policy preferences, a pattern absent from the unstable and internally fragmented Greek governments. The Italian governing elites relied on a social alliance of middle and upper classes, while in Greece the corresponding classes distrusted the government, and resisted government policies. Finally, an economic culture fostering heavy industrialization, in the context of pragmatist liberal economic policies, was present in Italy but absent in Greece.

In more theoretical terms, a lesson can be drawn from this paired case study. When looking for the sufficient conditions for economic and political development, which complement the necessary injection of international aid, one has to focus on domestic institutions and elites, as well as on the reactions of the social actors, representing the middle and lower-income strata. Institutions and actors follow paths, which have been laid down in the past; i.e. in our case in the inter-war period. If after the war, Greece and (in a more spectacular fashion) Italy were able to escape path dependence laid down in the inter-war period, this was owed to large injections of foreign aid, and to different uses to which domestic institutions put such aid, once they received it.

Domestic institutions and actors can switch to routes other than those recommended by the donors of aid. This is what the Italian state and Italian industrialists chose to do. They mixed liberal economic policies and sparse state intervention in the economy through stage agencies. To conclude, international aid would have been useless, unless it had been combined with the interests and commitment of domestic political institutions and actors. The latter of course served its own interests, but also rendered international aid invaluable.

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