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On the Crossroads of Banking and Politics

General framework and Observations

The paper is based on research in-progress. It deals with the worlds of banking and politics during the interwar period and draws information from banking archives, personal papers of Bank governors and official publications. It concerns the question: Are political and banking careers mutually exclusive or could they be also complimentary. What happens when politicians become bankers, or vice versa?

During the interwar period, problems of the capitalist system which had earlier led to the War continued to have important consequences for the whole of Europe in peace time. Banks were considered partially responsible for the collapse of monetary stability and received the attention of International Organisations which assumed the task to redress Europe. Among the new features of the period were direct State intervention in the economy which acquired increased importance, the emergence of central banking as a new parameter which determined political and economic governance not only in central countries but also in new states and in South East Europe, the introduction of various mechanisms to restore international trade among which the return to a fixed exchange system. Efforts by the victorious powers in the War were concentrated on the question of reparations with the purpose not only to prevent Germany for waging war again, but mainly to allow all other countries to redress their economies at the expense of Germany. The

situation apart from its political ramifications and ideological stands called for new expertise in assessing damages, compensations and reconstruction programmes, promising an enhanced role of economic experts, diplomats and bankers.

A trend which was introduced in Britain and Germany before the War for other reasons and within a different frame of reference was now expanding in the rest of Europe as the importance of economists and academics was enhanced. The Civil Service, other state authorities, governments, international organisations and banks offered attractive opportunities for aspiring University graduates and received increasing numbers of political economists, very often academics, who were asked to compile statistics, follow up the economic situation, assess trade, industry, banking and other sectors, advise on the need of reforms, suggest concrete programmes and solutions for a variety of problems.¹ The gap in knowledge between these experts and traditional politicians who until then were wholly responsible for governance was widening and often led to intra-party or even more general conflicts, as the social and political landscape of Europe was also undergoing deep changes. New political forces and parties were beginning to change and were now based on ideas and principles rather than personalities, while the power of public opinion was a new phenomenon for the guidance or control of which new tools were being invented. Economists had there too a role to play as they could be less passionate than politicians, more capable of rational thinking and able to express ideas and explain complicated situations in relatively simpler and more direct ways to the public. Journalism, publishing and economic ideas was a common combination. After the War, new trends, movements and processes began to get

¹ The tradition was especially strong in Britain. An example was J.M. Keynes, who worked for the Treasury and became a representative at the Versailles Conference at the end of the First World War.

institutionalised everywhere, in bigger and smaller countries: British foreign policy, for instance, which had been diversified somewhat earlier with the establishment of a Department of Overseas Trade, was no longer only interested in colonial affairs but included the whole of Europe, and particularly Eastern and South-Eastern European countries. Regular surveys and annual reports were published and circulated regarding politics, economics, culture, business, they included statistics on population, development, production, trade and many other issues. France followed suit with a section within the Quai d' Orsay exclusively interested in trade relations with other nations around the world. The economic and financial press was diversified. This was the time also when the diplomatic corps was diversified and the position of Commercial Counsellor or Attache was institutionalised within the foreign relations in smaller countries. A separate hierarchy was created and economic diplomacy was accordingly enhanced everywhere in Europe in old and new nations.

A new sector which contributed to the consolidation of these trends was that of the International Organisations which emerged at the end of the War out of the Versailles Peace Conference (also the Brussels Economic Conference etc.) epitomised by the League of Nations, its ambitious agenda and its many different committees. These bodies were initially assisted by earlier institutions, e.g. the International Financial Committee set up by the Big Powers at the end of the 19th century to oversee countries in distress which for various reasons had defaulted on their foreign payments and were placed under the supervision of the Powers. The situation was different now, as the earlier default had involved negotiators mainly of banks, since loans were generally concluded between private banks and only carried the guarantee of the states. Titleholders had accordingly formed special defence committees

which exercised pressure on their respective governments to negotiate financial settlement. The interwar period had changed the situation (although not the behaviour of titleholders) because reconstruction loans were no longer contracted between private bankers but by governments mediated and guaranteed by the League of Nations in which Britain had increased power. Negotiators were now officially appointed by national governments but were most of the time bankers, because they were more experienced than politicians. Some also had political experience, since at some point in their lifetime had been appointed ministers, or were members of political parties. In such cases, they often had to perform a balancing act between politics and finance.

The first part of the Interwar period held, therefore, many opportunities for this combined action of negotiators whether politicians or bankers. Suffice it to say that until 1927 a series of new central banks were founded in Europe, new regulation and reform measures were introduced everywhere with regard to banking, loans were contracted by almost every country, old or new, supervision committees and rules started to be enforced. When the Depression hit the European economies a new round of negotiations was initiated.

Greece was one of the cases in which a new Central Bank was negotiated after 1919, was founded in 1927, not without resistance from the old and powerful predecessor, the National Bank of Greece (NBG), within the more general framework of post-War economic stabilisation, which led to a more accelerated institutional modernisation. But the Greek situation was further complicated, on the one hand, because of the earlier default in 1898 which had ushered in international financial control, and on the other, because of the defeat with Turkey in 1922 which resulted in an unprecedented in modern history massive exchange of populations between the two countries and the need to rehabilitate over

one million destitute refugees from Asia Minor who fled from their lands to be saved from the massacre, abandoning their property and losing their livelihood. Then in 1932 the country defaulted again on foreign payments, after having adopted the Gold standard in 1927.

The case of Emmanuel Tsouderos.

The situation outlined above may be explored through the profile of Emmanuel Tsouderos, a jurist and politician (MP and Minister), who also studied political economy and as an economist became an international negotiator before he joined the National Bank of Greece. He dealt with the refugee problem, negotiated the war debt and the foundation of the newly established in 1927 central Bank (the Bank of Greece), was later in 1931 elected its Governor, a position he held until 1939 and faced the full force of the Depression years. He was removed from the head of the Bank by the dictatorial government of Ioannis Metaxas and exiled on an island on the allegation of conspiring against the regime. Two years later in 1941, after the German invasion in Greece, he returned to politics as Prime Minister of the national (royal) Greek government in exile until 1944 when he returned to Greece. He maintained his interest in banking and economics, held several ministerial positions, founded a political party and died a few years later (1956) totally disillusioned from politics and politicians.

His biography is in progress and focuses on events and processes which were only sparsely documented before and point to a life which unfolded oscillating between the worlds of politics and economics. It explores the circumstances and forces that determined the change in direction from the world of politics to that of finance, both on a personal level, in terms of family influence and values internalised, but also on the level of the economy and society, in terms of opportunities presented for

young economists in the new post-war European and Greek general environment.

The eldest son, of an old and powerful Cretan family spanning several generations across many centuries, Tsouderos was born in Rethymno in 1882. He was brought up within the traditional culture of the island, whereby the elder son was expected to assist and protect his siblings and other members of the extended family. The Island was still then under Ottoman rule, and young Tsouderos developed a strong sense of patriotism and duty towards the community made up of several other powerful families (clans) as well as merchants, peasants and farmers who were deeply affected by the local culture of political and economic patronage. His father, Ioannis Tsouderos, a medical doctor enjoyed the respect of Ottomans, other foreigners (English, French etc.) and Greeks who conferred on him important power which he used to defend the interests of the whole island. Such a profile in the mind of a young child embodied the values of solidarity and consensus for a common cause, i.e. freedom from the Ottoman yoke. The family had indeed consistently supported the freedom of Crete and had lost most of their property in such struggle. When in the 1890's the Island was placed under the protection of the Great Powers, Ioannis Tsouderos became a counsellor of the British Commissioner, Prince George, and the whole family and clan espoused the idea that Crete would become independent with the help of the English (an early familiarity with England and English culture which would prove very useful in later years).

Young Emmanuel spent his childhood among the family already protecting and helping his three younger brothers and one sister. At some point he was sent to Preveli monastery -built on family land- for early schooling. Discipline (not excluding physical punishment), reading and writing skills, contemplating the wilderness and working in the church

were experiences he never forgot. He would never in his adult life show particular religious zeal, but he developed a taste for contemplation, enjoyed his solitude despite his many friendships and acquaintances, became a good listener and observer, maintained discipline all his life and learned to work hard. He later continued his education in the local school. The violent events of the 1896 rebellion led to severe persecution and massacres of Christian Cretans and he was sent to Athens to finish his secondary education and get acquainted with the wider world. By then, as a result of the rebellion, the family was in serious financial difficulties which were not eased before 1898 when Ioannis Tsouderos started his advisory work at the High Commission in addition to becoming soon afterwards a member in the newly established local parliament in charge of economic and development issues. Young Emmanuel Tsouderos in Athens was also affected by the weak finances, was assisted by relatives and learned to appreciate the virtues of frugality. When the time came for higher studies, contrary to tradition, he did not follow his father's profession (medicine) but chose the alternative path of Law School. He wrote a dissertation on the history and political status of Crete arguing that it was not a wild and barbarous place but rather the cradle of an important civilisation, an island which had always communicated with the West and had a rich culture. A juridical career was a basic qualification for any son of the elite aspiring to enter politics, and a profession which would fetch a good income. He returned to Crete as a jurist and as expected practiced law with success defending Cretans in Ottoman courts. He also began to assume responsibility as the future leader of the large extended circle of relatives and friends. He made good contacts and his involvement with politics as an MP in the local parliament started before his 25th anniversary, at a difficult if exhilarating moment, just as the whole of Crete was rallying to the cause of Union

with Greece. Tsouderos worked hard publicising on the mainland and abroad the Cretan cause. His speeches in the House received good comments and so did his work as a member of the public works committee and economic affairs (in a way inheriting his father's domaine of expertise). When, however, strife broke out among the different political factions, Tsouderos felt caution was the best tactic as the environment was characterised by fluidity of loyalties and ideologies. He had on several occasions been approached by the rising new statesman, E. Venizelos, to join his liberal party. He assessed the situation but because his father led one of the strong opposing factions of the Island, did not move until after his death in 1910 and only when Venizelos clarified that he expected him to join the inner circle and become future MP and Minister. Soon Venizelos himself became Prime Minister of Greece and after the Union of Crete with Greece in 1913, Tsouderos was indeed elected Deputy for Rethymno in the Greek Parliament, moved to Athens where he established a good reputation and an important network of friends among whom many influential journalists in Greece and abroad, being conscious of the rising power of public opinion. He would use the press systematically in the future. He impressed his colleagues with well prepared reports and conciliatory speeches in the House, while his interest was focused now more precisely on economic affairs and development issues. He was appointed Minister for Transport but being much less doctrinaire and more cosmopolitan thanks to the relations Crete enjoyed with western powers, than most of his MP colleagues from 'Old Greece'² he felt he had more to offer if he studied abroad. He maintained good relations with all parties of the opposition, while his strong sense of duty and rational thinking made him keep his distances from them.

² The term refers to territories liberated between 1821 and 1881. Macedonia, Thrace, Epirus, Northern Aegean Islands and Crete incorporated after the Balkan Wars were defined as 'New Lands'.

In 1916, when the deep division between Monarchists and Venizelists escalated in the whole country,³ Tsouderos decided to leave Greece and go to France for further studies. With the help of his aunt he was able to rent a small flat in Paris, where he studied political economy under the Christian Socialist academic Charles Gide, editor of the prestigious journal *Revue d' Economie Politique (REP)*. Tsouderos like Gide's other students were invited to publish their work after receiving the scrutiny of the master. The French academic was not unknown among Greek colleagues,⁴ but Tsouderos was the only one of his students who maintained friendly relations with him throughout his life, and Gide's books were for the first time translated into Greek and became popular especially in economic mostly in the cooperative movement circles.⁵ Studying political economy was part of the new trend already mentioned which had some following in Greece and was related with the rising importance of economics as an academic field of knowledge within the capitalist system. Tsouderos was already fluent in French and later learned English too; under Gide's supervision he prepared a doctoral thesis on the Economic situation of Greece and its future prospects. It was written in French and was one the first studies about the Greek economy written in a foreign language and following the general tendency in academia, was based on statistics. It also highlighted the possibilities for modernisation and development of the country after the

³ The phenomenon became known as 'Dichasmos', the term denoting the deep schism in Greek society between monarchists and republicans, which on the surface referred to the decision of the Royalist government in 1916 to remain neutral during the War, a position favouring Germany (as the Queen was Kaiser's sister) and not join the war on the side of the Entente forces as Venizelos was advocating firmly believing that Greece would gain if she sided with them. Apart from politics there were also important nationalist and economic issues at stake, the monarchists being conservative and favouring the maintenance of the status quo in a predominantly agricultural economy.

⁴ There were several other Greeks in the circle of Gide's students mostly conservative, and he had contacts with at least one Greek Professor, Andreades.

⁵ During 1922-23, he requested Gide to support the Greek cause in Turkey and her claims for reparations from Turkey after the Asia Minor catastrophe. Gide politely refused to do so, as on the whole public opinion in France towards Greece had drastically changed after the Royalists came to power in 1920.

War. It received good reviews in the press both in Greece and overseas and like other subsequent articles by Tsouderos appeared in the *REP*. After the end of the War Gide participated in several organisations and committees dealing with European reconstruction and monetary affairs and when in 1919 Venizelos included Tsouderos in the Greek delegation at the Peace Conference in Versailles and in the Vienna Reparations Committee, Gide introduced him to other European technocrats and experts. During the time he spent among those foreign economists and diplomats, Tsouderos assimilated very quickly the new ideas, showed determination and organisational capacities and a vocation for economic diplomacy. His earlier political experience was useful in that he was in a position to gauge the social and political consequences of any decisions. As an economist, however, he was able to argue about which course of action should be followed in a dispassionate and quite persuasive fashion. When diplomatic relations were established with Hungary and Tchechoslovakia, he was placed at the head of the new diplomatic service (although he was never made officially an ambassador). He drew much satisfaction from his diplomatic missions, to the extent that he tried to secure a position in the Greek Ministry of Foreign Affairs, possibly with the view of eventually becoming a Foreign Affairs Minister. He also received congratulations from many other foreign negotiators, especially the British delegates. Over the years he had acquired a particular style: calm and inscrutable he despised outbursts, appeared impartial and was rather cautious (if not suspicious of other people whose potential ulterior motives he feared). He valued privacy, was rather thrifty, meticulous with accounts, hard working and scholastic with the wording of agreements and his speeches, rational and persuasive in his arguments. He exercised control easily over his family and associates through his prestige. Political involvement continued to have a place in his priorities as this

position might have been an important stepping stone towards his ideal of a statesman. At the same time, he advocated that small European countries should be represented in the various League committees by one and the same representative, perhaps targeting such a high international office for himself. However, back in Greece Venizelos, who really never trusted Tsouderos, had other plans, having decided to keep foreign affairs as his 'domaine reserve'. Tsouderos was by now one of very few Greeks with excellent knowledge of economic and monetary affairs, with experience in the new field of economic diplomacy and undoubtedly very useful to the Liberal party. He was recalled to Greece, in view of the important elections which were going to take place in November 1920. The party took a heavy defeat but Tsouderos won his seat in Parliament.

In the extremely polarised and unstable political landscape of Greece, in the 1920s, he became minister of transport and then of National Economy. Constant strife and conspiracies among his colleagues, however, produced new disappointment and this time Tsouderos decided to give up politics altogether. He had meanwhile married and had two children to support and with the third child, Virginia, born in 1924, he looked for more stable prospects away from the highly risky political arena. His qualifications and experience fitted perfectly in the banking environment which was more secure and could provide a much better income for a large family. His credentials were good and appreciated. He was already a master of diplomacy and knew how to handle people. He had clear ideas, a sense of purpose in what he undertook, a high enough social and cultural background, an excellent knowledge of economics, the capacity to discern opportunities and to evaluate quickly and accurately new situations. He also had influential political connections and excellent references from important foreign quarters. By now he had a realistic global vision for the reconstruction of

Greece within Europe, a good knowledge of how banks in Europe were operating and what was the role of central banking. He applied for the position of Deputy Governor of the National Bank of Greece (NBG), the biggest financial institution of the country, as powerful as the state itself, which handled all the public and private foreign loans.

Already from the time he was a member of the League of Nations Committees (1919-1921) and later as Minister of National Economy (1924) he had dealt with the question of European reconstruction and monetary stabilisation and was familiar with NBG's connections with foreign bankers in England and the USA. Among the projects he was particularly interested to promote was the refugee rehabilitation programme based on a League of Nations (LN) Loan. Both politically and economically, it was considered most important for development and along with additional loans negotiated with private bankers for the construction of big productive works was expected to change the face of Greece and get her out of poverty and misery. He published a detailed analysis about the scheme in which he put forward new constructive ideas about the issue of refugee indemnities and loans.⁶ Most importantly, he advocated the creation by the state of a special credit institution, the 'Refugee Bank' with complete political autonomy -a new principle supported internationally for central banks- which would handle indemnities, loans and the issue of stocks related with the refugee rehabilitation. As Minister of National Economy in 1924, he introduced a bill in parliament which became Act for the foundation of such an institution. However, a bank of that nature directly threatened NBG's interests and the plan was nipped in the bud. In a government reshuffle Tsouderos lost his portfolio, and was instead sent on official mission to

⁶ To be granted by the Greek state pending an agreement with Turkey about the value of abandoned property in Asia Minor.

London replacing the Governor of the NBG and friend of Venizelos, Alexandre Diomedes, in the negotiations for the war debt.⁷ Interestingly enough, during his absence, the law about the Refugee Bank was annulled and an agreement was soon afterwards signed between the Government and the NBG by virtue of which the bank became the designated institution for handling all refugee loans, indemnities and other grants.

Tsouderos stayed abroad for over two months agonising over the fate of his candidature at the NBG. When finally his appointment as Deputy Governor came through, among his immediate duties was the handling of the refugee scheme, divested now of its important mechanism, the 'Refugee Bank'. The incident convinced Tsouderos that neither NBG's Governor, Alexandre Diomedes nor Venizelos who exercised control behind the scenes, could ever be trusted. Getting to know how the NBG operated from the inside, how close it was to conservative political and other interest groups and encountering the hostility of a strong intra-bank bureaucracy who objected to the appointment in top positions of outsiders like Diomedes and himself only strengthened his belief that the banking system as a whole needed overhauling and this could only be achieved if the power of the NBG were curtailed.

His 'Refugee Bank' had been conceived in fact as an alternative to the NBG, a reform tool based on the new economic force, the refugees. The central principle for Tsouderos was its independence from political control. As an international negotiator he had studied and knew enough about European banking, about the British and League of Nations plans for reform and the establishment of new central banks in South East

⁷ The replacement was deemed necessary because the haughty ways of Diomedes threatened to cause stalemate in the negotiations.

Europe and as a modern economist, he considered political autonomy a most important principle for modern banking. Going to London once again for negotiations gave him the opportunity to make his priority for the next two years the stabilisation programme through the foundation of the new Central Bank, the Bank of Greece and the drafting of its statutes.

A new central Bank was by no means an easy task in Greece. Right from its inception it faced the competition and resistance of older credit institutions such as the National Bank of Greece and the Bank of Athens which were known for their tight relations with political parties and interest groups and wished to perpetuate their power. Hard battles had to be won against tradition and vested interests. Furthermore, this was a political decision and E. Venizelos, either in government or behind the scenes for most of the interwar period, had also to be convinced that it would be advantageous for him and his policies to work through a new institution. Tsouderos unfolded his diplomatic expertise and took one step at a time. Once appointed Deputy Governor of the NBG he could work from the inside and was able to succeed. When the new Central Bank started its operation, he first served as Deputy Governor becoming its governor in 1931. The Bank of Greece as it was named became a battle field for several years. Tsouderos won most of them against old (and new) enemies who threatened the very survival of the bank. Twice the integrity of the institution was threatened by the NBG, while, he personally had to defend his position. Eventually, the NBG benefited from the creation of the new institution as it maintained all the profit yielding operations of commercial banking, industrial credit and overseas deposits. It also maintained the powerful network of branches and the parallel network of important businessmen, politicians and other personalities in the country and abroad built in the 80 years of its operation. The Bank of Greece, however, assumed the responsibility of

designing the economic policy (through monetary controls) and safeguarding the purchasing power.

The consolidation of the Bank of Greece became Tsouderos's major achievement. He fought hard to preserve and protect and often liked to call it his '*fourth child*'. After the resignation of the first Governor, A. Diomedes,⁸ he took office in 1931 and dedicated all his efforts to it.⁹ During his governorship (1931-1939) he maintained a line of management which respected the principle of political autonomy but strengthened collaboration with the state. Through monetary policy he sought to restore the purchasing power of the population. In a few years amidst the severe impact of the Depression, he was able to impose reforms within the bank in order to strengthen its position vis a vis the rest of the financial system and curb their speculative practices; he reinforced the new bank's assets and reserves by removing the right from the NBG to hold deposits of Public institutions and local authorities and allowed the BG to function as a Bank of last resort. He created a corps of loyal employees by allowing a Union to be founded. Working closely with it he introduced a work ethic and discipline but also privileges for the employees which made them an elite part of Greek labour until today. He survived as Governor despite frequent political and ideological upheavals and by doing so he gave a sense of continuity to the Bank and its policies. Not all central bankers after him were able to reconcile the practice of close collaboration with the state, on the one hand, and the statutory principle of complete political autonomy, on the other.

⁸ Diomedes was another personality who had a dual identity as politician, Minister at one time and banker. He was a personal and very loyal friend of E. Venizelos and hardly ever proposed a move without his support. This lack of initiative brought him into conflict with foreign negotiators who preferred the more suave methods of Tsouderos. As a result relations between the two bankers were often under strain.

⁹ Diomedes resigned in the wake of an economic scandal when he authorised a loan in foreign currency to a personal friend, a tobacco industrialist, allegedly for modernising his firm. The loan however, was immediately exported to a bank account in a foreign bank. In conditions of currency shortage, strict control on foreign exchange were imposed.

Tsouderos was able to endow the new institution with the adequate prestige and economic power which was necessary in the framework of the general modernisation of the country. Despite his efforts, he was deposed for a few months in 1935 by the pro-monarchist conservative People's party after a Venizelist coup d'état was foiled. In 1939, he was removed from the Bank and banished to the island of Syros by the dictator I. Metaxas, on allegations of conspiracy against the regime. Soon afterwards war was declared by Italy against Greece and in April 1941 the German forces invaded Greece from the North. For Tsouderos this was another turning point towards politics. He fled with the Court and democratic leaders to Crete where they prepared the defence of the island and from there the government went to Cairo, then South Africa and eventually to London.

After the War he tried to reconcile old personal and national dilemmas, get over his disillusionment with politics and advocated the benefits of a wide social consensus. He went as far as founding a centre-right political party in 1947 (EPEK) which however could not have survived in the extremely polarised political conditions of a country directly affected by the cold war. He died in 1956 never gaining the status of a statesman he had strived to achieve.

Conclusion

In the previous pages it has been argued and shown that Emmanuel Tsouderos moved out of the traditional mould of a member of the Cretan elite, he rejected direct involvement in politics for a long time, and as Governor of the Central Bank he was able to work more effectively with different governments towards achieving consensus policies and modernising the banking system. Rationality and expertise allowed him to be dispassionate and efficient.

Being a central banker in the interwar period was certainly not easy or safe. It needed stamina, strength of character and many talents. Tsouderos had remained all along loyal to principles and values he internalised in his youth, of which freedom, democracy, patriotic duty, solidarity, rationality, work ethic, discipline, and a will to strive for consensus were high in his priorities. It was this background that pushed him to be patriotic once more in 1941 and return to politics. The old family tradition undoubtedly pulled him towards it, but it was through his expertise as an economist, his rationality, knowledge and realism in banking that he was able to leave important achievements. Constraints and opportunities circumscribed his action, his perception of the world and aspirations during his lifetime left a mark on the physiognomy of the institution he worked hard to consolidate.

Looking at the history of Tsouderos and the history of the banks he got involved in, helps discern the affinities between politics and finance in terms of common principles, tools used and identities of individuals and of institutions. Both milieus demanded personalities having similar talents and abilities, able to conceive new ideas, adopt new methods and practices, bring about structural changes and institutional modernisation. The world of banking however, seemed to be more secure and less vulnerable to -although not totally free from- political pressure. Economic and political office then and now are not necessarily mutually exclusive if they are governed by rationality, democratic principles and moral ethic.