

# Growth Models and Core–Periphery Interactions in European Integration: The German–Greek Special Relationship in Historical Perspective

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## Abstract

This article investigates the history of the German–Greek relationship in the context of European integration and demonstrates that West Germany and German–Greek business networks played a crucial role in the shaping of Greece’s post-war growth model. The article challenges the assumption that the relationship between the two countries is overshadowed by the past. In contrast, it shows that post-war German–Greek relations were forged around European integration with an eye to the future and that it was the two countries’ early rapprochement and the mutual accommodation of their respective aims that laid the foundations of their asymmetrical interdependence. In doing so, the article argues that it was the success of Greece’s European strategy, rather than its failure, that lies at the heart of its recurring balance-of-payments problems: a lingering trade deficit with Germany, the country’s major trading partner, proved to be, as I will show, the price for growth and modernization.

**Keywords:** Germany; Greece; business networks; growth models; core–periphery relations in European integration

## Introduction

The recent euro crisis repeatedly brought both the German–Greek relationship and the peculiarities of the Greek economy to the forefront of debates over European integration.<sup>1</sup> Yet the critical topics relevant to these debates – Greece’s economic model and path to Europe, European integration, and German–Greek relations – have rarely if ever been examined within a common framework. This article does just that by studying the German–Greek relationship in the context of European integration from the first major bilateral agreement in 1953 to Greece’s entry into the EC in 1981. The paper illustrates the importance of early German–Greek interactions in the shaping of the Greek growth model and argues that Greece’s EC membership had a long prehistory in the modernization strategies both countries embarked upon as early as the 1950s. For years, Greece represented a success story for the European project: it was the first European state to become an EC associate and a forerunner of the Mediterranean enlargement despite having, in the meantime, experienced a dictatorship (1967–74). It thus came to symbolize the political determination of the EC to support the nascent democracies of the European South. On the economic front as well Greece experienced an early Europeanization<sup>2</sup> of its foreign trade,

<sup>1</sup>On the broader social logics of these debates, see Matthijs and McNamara (2015).

<sup>2</sup>I use Europeanization here as a broader background concept to denote ‘an increase in cross-border relations (transactions, social and political linkages, cultural transfers, etc.)’ (Schneider and Grote, 2006, p. 6). On Europeanization as a systematized concept, see Radaelli (2006).

which preceded its actual entry into the EC, and facilitated its membership application despite the multiple crises the country faced in the mid-1970s. It was the very success of this strategy, however, that lies at the heart of Greece's recurring balance-of-payments problems: a lingering trade deficit with Germany, the country's major trading partner, proved to be, as I will show, the price paid for growth and modernization.

The paper takes a European integration history approach and makes use of International Political Economy insights,<sup>3</sup> including the concept of growth models advanced by Varieties of Capitalism (VoC) scholars in response to the conceptual challenges posed by the euro crisis (Nölke, 2016; Hall, 2018). Hall and Soskice's (2001) seminal *Varieties of capitalism* opened up new directions for the comparative study of capitalist economies across the globe, focusing on institutional complementarities and putting the firm at the centre of their analysis. In dealing with the rationales behind monetary unification, Hall (2012, p. 356) has argued for a fundamental shift in focus from simple policymaking to the organization of the political economies which condition what governments can do. Yet the original VoC typology of capitalist varieties was mostly based on their appearance in the late 20th century (Sluyterman, 2015). Economic historians and economists working on the history of European integration and monetary unification such as Brunnermeier *et al.* (2016), James (2012b), Marsh (2011) and Mourlon-Druol (2012), have shown that many of the issues that the recent euro crisis brought to the fore had been long debated among European policy-makers, bankers, and technocrats. Both strands of literature offer nuanced historical insights and represent major contributions to our understanding of longer-term trends in the context of European integration. However, they also tend, respectively, to read this story through the lens of the Franco–German and British–German relationships or to deal with the varieties of national political economies as predefined ideal types in isolation from one another.<sup>4</sup> Thus, the interactions between core and peripheral EC/EU states and economies before the creation of the eurozone remains an understudied issue.

This article seeks to fill this gap through an examination of the history of the German–Greek relationship in the context of European integration. It contributes to available scholarship by shifting the chronological boundaries to well before the creation of the EC and by emphasizing the role of pre-existing German–Greek business networks in order to depict the dynamics of preference formation beyond bargaining procedures and institutional arrangements. Liberal intergovernmentalism has substantially broadened our understanding of the driving forces behind the European project, highlighting the role of societal actors in preference formation within national settings (Moravcsik, 1993, 1998, 2018). Among various criticisms of liberal intergovernmentalism (for example Anderson, 2008; Gilbert, 2008; Börzel and Risse, 2018), it has been observed that its account of preference formation is static and limits its explanatory power since, in the words of a proponent, it 'fails to appreciate how earlier integration modifies preference formation and the bargaining space' (Schimmelfennig, 2018, p. 1580). European integration historiography, departing from static neo-institutionalist approaches, shifts our focus from intergovernmental bargaining procedures to the dynamics of preference formation

<sup>3</sup>For a recent discussion of the use of capitalism as an analytical tool to explain the European project in historical perspective, see Andry *et al.* (2019).

<sup>4</sup>For general discussions of the VoC, see Hancké *et al.* (2007), and Hancké (2009). A few significant exceptions to this trend within VoC, such as Fioretos's (2011) *Creative reconstructions*, focus on the impact of international organizations – rather than other types of capitalism – on national affairs.

over time. The Milwardian school has adopted an economic history perspective, developing concepts such as allegiance and national strategy to explain the creation and expansion of the EC/EU (Milward, 1992, 1995, 2002, 2005). More recently, others such as Kaiser *et al.* (2009, 2010), Kaiser and Meyer, 2013) have challenged the Milwardian state-centric approach and have focused on transnational networks and societal actors as the driving forces of Europeanization. Meanwhile, business and economic historians, such as Bühner and Warlouzet (2013), Coppolaro (2013), Ramírez Pérez (2009, 2010), Rollings (2007), and Rollings and Kipping (2008), have highlighted the critical role of European business in regional integration well before the 1980s.

Overall, this article departs from the prevailing assumptions in three bodies of scholarship. First, the literature on the crisis of the eurozone has focused too much on, well, the eurozone (Stiglitz, 2016; Frieden and Walter, 2017, 2018; Mody, 2018). Therefore, it tends to neglect longer-term aspects of the overall process of European integration, within which the EMU has been just one of the latest projects and, arguably, the riskiest one. Second, the literature on post-war German–Greek relations remains sparse, focusing predominantly on the legacy and aftereffects of the Nazi occupation (Dordanas and Papanastasiou, 2018; Konstantinakou, 2015; Králová, 2016). The major exceptions are two works of diplomatic history (Apostolopoulos, 2004; Pelt, 2006) which frame bilateral relations in the context of the Cold War and focus on the early post-war decades. Third, the available diplomatic history scholarship on Greece's path into Europe has argued that Greek accession to the EC was the combined result of domestic political and international security factors in the 1970s, *despite* poor economic performance (Karamouzi, 2014). This literature, however, has not accounted for economic issues and has made no use of German primary sources. Political scientists, meanwhile, have contended that Greece's European policy was a strategy of the state, largely neglecting the role of societal actors in this story (Verney, 2002; Pagoulatos, 2003).

This paper is based on extensive research in public and business archives in multiple countries. Apart from major Greek and German sources, I have consulted documents held at the Historical Archives of the European Union in Florence, Italy; the National Archives and Records Administration at College Park in the USA; and the National Archives at Kew in Britain.

The article has three main parts. In the first part, I provide background information on Greece's post-war growth model in relation to the gradual integration of its economy into the Common Market. In the second part, I examine how the development of bilateral economic relations between Greece and West Germany reflected the two countries' distinct European policies. In the third part, which is divided into four subsections, I offer a periodization of the special relationship between Greece and West Germany with respect to the EC project.

## **I. Post-war Greece: Always a Demand-Led Economy?**

The VoC literature sees Greece as falling under the category of mixed-market economies (Featherstone, 2008). These economies are typically characterized by a demand-led growth model where macroeconomic policies accommodate 'monetary and fiscal policies designed to push up levels of domestic demand' and inflation is used as a tool for 'further stimulus to consumption and disincentive to saving' (Hall, 2018, pp. 12–13). Such

macroeconomic policies existed in Greece in the mid-1970s, and prevailed after PASOK – at the time a radical socialist party – came into power in 1981. In the early post-war period, however, successive Greek governments adopted a policy mixture, which combined macroeconomic discipline with state intervention (Pagoulatos, 2003). In 1953, the Greek government launched a trade liberalization programme which included a radical currency depreciation and the abolition of import quotas. The program aimed at monetary stability – a prerequisite, it was thought, for the realization of ambitious Greek industrialization plans that relied heavily on foreign capital (Iordanoglou, 2003; Pagoulatos, 2003; Kazakos, 2007).

The year 1961, when Greece signed an association agreement with the Community, represents a milestone in this respect. This agreement aimed at the eventual establishment of a customs union between Greece and the EC on the understanding that this process would serve as a preparatory stage before full membership. EC tariffs on nearly all industrial imports from Greece were to be removed by 1969. Gradually diminishing Greek tariffs on industrial imports from the EC member-states would remain in force for a 22-year period for goods produced by sectors active in Greece and a 12-year period for those not produced in Greece at the time of the signing of the agreement. Harmonization of agricultural policies between Greece and the Six were a future goal, and the agreement sought to promote Greek agricultural exports to the Common Market. Lastly, the European Investment Bank was to provide development loans of up to \$125 million for infrastructure projects in Greece (Svolopoulos, 1992a, pp. 545–559).

The conclusion of the negotiations over the terms of the Greek association with the EC signalled the beginning of rapid industrialization, despite the political instability which culminated in the military dictatorship. Based on political control of the trade unions, the Greek economy enjoyed impressive growth rates combined with a remarkable monetary stability. Between 1950 and 1973, Greek per capita GDP increased at an average annual rate of 6.2 per cent (Eichengreen, 2007, p. 17).<sup>5</sup> The share of private consumption in GDP, however, fell sharply from 75.4 per cent in 1961 to 58.3 per cent in 1973. The share of labour in GDP also moved downward from 29.3 per cent (1961) to 28.7 per cent (1973). As a result of significant productivity gains from industrialization, between 1961 and 1973 real wages increased by an average annual rate of 6.7 per cent, but the unit labour cost in the Greek economy (all sectors) fell by an average annual rate of 3.8 per cent (Kazakos, 2007, pp. 259, 277; Ministry of National Economy, 1998).

The creation of an export-led model proved a challenging endeavour. The share of the exports in GDP remained relatively low, rising from 5.5 per cent in 1961 to 6.4 per cent and 8.2 per cent in 1973 and 1974 respectively. During this period, however, Greek foreign trade experienced a major restructuring in favour of industrial exports and diversion towards the Common Market. From 1961 to 1973, Greek industrial production rose by an average of 13.5 per cent annually and the extroversion of Greek manufactured products (excluding food, drinks, tobacco and oil products) jumped from 2.6 per cent in 1963 to 14.7 per cent in 1974. The value of Greek industrial exports rose from \$11 million in 1961 to \$982 million in 1975, of which almost half went to the Common Market (46 per cent to the EEC-9 and 43.7 per cent to the EEC-6, compared to 15.6 per cent to the

<sup>5</sup>The same period per capita income grew at a regional average of 4 per cent in Western Europe and 5.1 per cent in Europe's periphery – namely Greece, Ireland, Portugal, Spain and Turkey (Eichengreen, 2007, p. 17).

EEC-6 in 1962) (Bank of Greece, 1992; Hassid, 1980, pp. 150–1; Ministry of National Economy, 1998).

Greek firms, meanwhile, operating in a heavily regulated environment, navigated the system by forging close ties with the political power. This incestuous relationship, which involved exchanges of personnel and information at the highest level, allowed for a selective compliance with regulations. On the one hand, all firms were embedded in a dense web of direct and indirect incentives and tariff and non-tariff protections. On the other hand, only big business – namely certain leading industrial firms and shipping companies (often based outside Greece) – could circumvent the banking regulations and receive credit beyond fixed limits. Interpersonal relations between policymakers and business leaders made it easier to accommodate particularistic demands in return for investment and political support. In this context, leading firms embarked on a business growth strategy, betting their winnings on industries with a perceived competitive advantage such as metallurgy, oil refineries, and shipyards. These were often complementary to their existing activities in mining, oil transport, and cargo shipping (Alexander, 1964; Coutsoumaris, 1963; Ellis, 1964).

Despite this impressive long-term economic performance, the 1973 oil shock exposed the structural weaknesses of the post-war Greek growth model by dramatically exacerbating the trade deficit (14.7 per cent and 13.3 per cent of GDP in 1973 and 1974 respectively). Rapid industrialization had strengthened Greek dependence on both Western European machinery and equipment and Arab oil, increasing the ratio of imports to GDP from 13.3 per cent in 1961 to 21.1 per cent in 1973. In that year, capital goods imports came to exceed consumer goods imports for the first time, while costly refined products made up almost one third of Greece's oil imports. Greek liquid fuel and lubricants imports rose from \$216.9 million in 1972 to \$413.5 million in 1973 and \$863.5 million in 1974, exacerbating inflationary pressures. The resulting recession, however, did not last long. After a sharp fall in GDP by 6.4 per cent in 1974, the Greek economy returned to high growth rates – although these were more moderate than they previously had been – until the second oil prices shock occurred in 1979 (Bank of Greece, 1992; Ministry of National Economy, 1998).

This early and short-lived recovery, however, was based on inflationary policies (Pagoulatos, 2003) which reflected more radical social attitudes in the context of the Greek transition to democracy (Ioannou, 1989). Between 1975 and 1978, real wages increased by an average annual rate of 8.2 per cent, the share of labour in GDP jumped from 28.7 per cent in 1973 to 35.4 in 1981 and the share of private consumption in GDP rose from 58.3 per cent to 67.8 per cent over the same period (Ministry of National Economy, 1998). The year 1981, marked by the country's entry into the EC, also witnessed a seminal moment in Greek politics in the coming to power of PASOK, which thereafter followed an expansionary economic policy prioritizing income distribution and social protections.

## **II. The Marshall Plan and the European Option(s)**

Throughout the post-war period, small, trade dependent and net debtor Western European economies, faced a major challenge: how to maintain an open economy that would

increase export revenue while building the domestic institutions that would compensate<sup>6</sup> for this openness (Frøland, 2004). This proposition – typically Milwardian in its emphasis on foreign trade and, by extension, on the relation those small economies would develop with capital-goods-producing Germany, as key factors in the decision to seek EC membership – applies to the Greek case as well. In view of its growing need of capital inflows for ambitious industrial ventures Greece came to develop a special relationship with capital-goods-producing West Germany. Conversely, Greece's dependence on capital goods imports played a key role in leading Germany to favour Greek participation in the Common Market. Yet eventual entry into the Common Market was not only the product of deliberate policymaking, but also the result of an organic process. Conflicts among national strategies, domestic priorities, organized business interests, and the preferences of individual firms or sectors represented a potential source of unintended consequences,<sup>7</sup> and often resulted in particularistic interests overriding general ones. West German–Greek economic cooperation preceded the Common Market and, as I will show, the early rapprochement between the two countries caused domestic political turmoil in Greece and exacerbated its lingering trade deficit with the FRG. It was precisely this political and economic friction that pushed the two countries to frame their special relationship within the nascent European multilateral institutions. Thus, the study of networks and their roles cannot be limited to ‘public and private actors [...] preparing or implementing legislation in distinct policy fields, with identifiable policy impact’ (Kaiser *et al.*, 2010, p. 8). Instead, a broader understanding of business networks offers a better heuristic tool with which to study the ‘hidden integration’ dynamics beyond institutional rules and policymaking in the context of the EC/EU.

Although Greece had suffered enormously under the Nazi occupation (Mazower, 1993), Greek governments made early overtures to West Germany, which, in turn, came to champion Greece's participation in the European project. Unlike the French, the Germans were not worried about exposing their farmers to potential Greek competition. The German economic presence in Greece did not primarily take the form of foreign direct investment, but the FRG was consistently Greece's main trading partner and a significant source of financial support through both bilateral and multilateral channels (Giannitsis, 1974; Hassid, 1980). The revival of the inter-war division of labour in Europe, in line with the Marshall Plan priorities, laid the foundations of post-war German–Greek economic and business relations over the long run. By restoring (West) Germany as the industrial hub and main exporter of manufactured goods in Europe on the one hand (Milward, 1984; Berger and Ritschl, 1995), and by neglecting the most ambitious Greek developmental goals on the other (Stathakis, 2004; Hadziiosif, 2009; Sfikas, 2011), the Marshall Plan defined the limits of Greek industrialization and its dependence on imports of machines, equipment, technology, and know-how from West Germany. Moreover, shifting US priorities after the Korean War (1950–53) required America's major Western European allies to share the burden of the Cold War in Europe, while leaving smaller allies, such as Greece, in search of foreign investment and financial aid (Lundestad, 1998; Pelt, 2006). This policy paved the way for a

<sup>6</sup>On ‘domestic compensation’, see Katzenstein (1985).

<sup>7</sup>This term is used to indicate an outcome that emerges due to the inherent complexity of a process and that is the result of specific (but not deliberate) action within this process (Mantzavinos *et al.*, 2004).

German–Greek rapprochement, since the West German government, and firms such as Siemens and Krupp played a crucial role in filling the gap left by the Americans. The relationship between West Germany and Greece, however, was not one of unidirectional dependence. Harlaftis and Tsakas (2019), focusing on shipowners' and builders' networks, have shown how Greek orders for ship construction were important in reviving the war-ravaged German shipyards in Hamburg, Kiel, and Bremen and contributed to the continuation of European hegemony in global shipping in the 1950s and thereafter.

Greek governments, having a vague idea of the country's comparative advantages (low labour costs, easy access to sea routes and availability of certain raw materials such as bauxite, nickel, and lignite) and a very clear idea of how to exploit them (namely by encouraging foreign capital inflows), sought to participate in European integration efforts early on. Nevertheless, both in the Organization of European Economic Coordination (OEEC) negotiations for a Free Trade Area and in the Common Market, Greeks sought to secure long-term transitional arrangements that would ease the shock of Greece's exposure to Western European competition (Pesmazoglou, 1962; Triantis, 1965). West Germany, for its part, did not share French suspicions of the British proposals for the creation of a wider Free Trade Area (Wurm, 1995). In fact, the German minister of economics Ludwig Erhard backed by the most dynamic, export-oriented sectors of German business, favoured this option, not least because it could open up more market opportunities. Although Chancellor Konrad Adenauer insisted on strengthening the Franco–German axis within the Common Market, the FRG came to advocate the widening of the EEC thereafter (Schulte, 1996; Rhenisch, 1999).

Strikingly, official studies of the prospective economic impact of the Greek association with the EEC were produced only after the signing of the agreement in 1961. Despite widespread scepticism, however, many members of Greece's political, diplomatic, and business circles had come to adopt the optimistic 'sting' argument (Kakridis, 2009, pp. 252–6): exposure to Western European competition was an opportunity for Greek manufacturing to raise productivity, lower costs, and achieve rationalization goals, including – critically – the shift to a credit policy based on clearly defined rules (although this was not achieved during the period in question). In the mid-1970s, accession to the EC was still seen as an incentive to modernize economically and as a way to depart from the excessively favourable treatment of individual business interests and the model of free-wheeling capitalism that had culminated during the dictatorship (Tsakas, 2015; Ikonomou and Tsakas, 2019).

The emergence of the Community as an international actor after the 1969 Hague summit created a favourable political environment for the inclusion of the nascent democracies of the European South (Varsori and Migani, 2011). In economic terms, however, the timing was rather unfortunate for the Greek membership application. On the one hand, it coincided with the acceleration of tariff removal as the transitional arrangements for the Greek association were entering their final stage, while at the same time the arms race with Turkey as a result of the Cyprus crisis placed further pressure on the troubled Greek economy. On the other hand, the 1973 oil crisis and the increasing difficulties the Western European economies faced thereafter, made the EC member-states reluctant to commit themselves to Greek requests for financial support (Tsakas, 2015, pp. 216–18, 224). Nevertheless, the Council of Ministers agreed to

commence negotiations on the Greek application for membership, despite considerable opposition within the European Commission (Karamouzi, 2014, pp. 35–62). Ultimately, the West German push for the widening of the Community (Loth, 2007, pp. 53–66), combined with close German–Greek economic ties and Greece’s progressive integration into the Common Market since the 1960s, proved to be crucial in allowing the Greek application to go through.

### III. The German–Greek Special Relationship: A Periodization

This section considers the development of the West German–Greek relationship in terms of a sequence of four phases. Each subsection below addresses the key issues at stake and highlights the importance of momentum for the post-war rapprochement between Greece and West Germany and the successful outcomes of the Greek applications for associate status (1961) and EC membership (1981). Certain key characteristics, however, were present throughout the period in question. First, West Germany remained Greece’s major trading partner all these years (Hassid, 1980, p. 67). Second, West Germany remained the primary destination for emigrating Greek workers (Apostolopoulos, 2004, pp. 235–245), a fact which loomed large in discussions of Greece’s inclusion in the Common Market from the time of the first bilateral recruitment agreement in 1960 to later calculations of the financial costs of an eventual Greek entry into the EC. Third, issues related to the Nazi occupation, such as reparations, the treatment of war criminals, and the return of confiscated public and private German assets in Greece, were used by both sides as bargaining tools to achieve economic goals (Králová, 2016): each major German–Greek agreement implied the formal or informal settlement or postponement of one or more of these issues.

#### *From US Aid to West German Credits (1948–57)*

In 1953, a bilateral agreement laid the foundations of the German–Greek rapprochement. The accord provided for West German government credits to Greece up to DM 200 million (USD 50 million) and specified that the Greeks would use these credits to purchase machinery and equipment from German firms for certain industrial projects in Greece. Those projects included industries, such as oil refining, chemicals, and mining.<sup>8</sup> This part of the agreement was made possible thanks in part to the renewed influence of two individuals who had been the most important links between the German and the Greek economies since the inter-war years, Bodossakis Athanassiades<sup>9</sup> and Ioannis Voulpiotis, who convinced Krupp and Siemens, respectively, to participate in the proposed Greek projects.<sup>10</sup>

<sup>8</sup>Der Bundesminister für Wirtschaft, Runderlass Aussenwirtschaft Nr. 97/53 vom 13. November 1953: Griechenland; Abkommen über eine wirtschaftliche Zusammenarbeit zwischen der Bundesrepublik Deutschland und dem Königreich Griechenland (and the attached documents), Bundesarchiv Koblenz (BAK), B102/57976.

<sup>9</sup>Bodossakis was the towering personality in Greek industry and a major beneficiary of the Marshall aid (Pelt, 2006; Vasilopoulos, 2019). In 1950, his companies represented 22 per cent of total Greek industrial production (Stathakis, 2004, p. 312).

<sup>10</sup>Knoke (Botschaft der BRD Athen) to Auswärtiges Amt, Besuch von Repräsentanten der Firma Friedrich Krupp AG, Essen, in Griechenland, 28/5/1953; Knoke (Botschaft der BRD Athen) to Reinhardt (BMWi), 25/7/1953, BAK, B102/57976. On Krupp, see James (2012a). For accounts of the immediate post-war efforts of West German business to cope with its war-time accommodation of the Nazi regime, see Grünbacher (2017); and Wiesen (2001). On industrial collaboration under Nazi occupation in other European countries, see Frøland *et al.* (2016).



By 1958, some \$60 million had already been released and another \$26 million had been approved,<sup>11</sup> as a follow-up agreement in 1955 had allowed for additional German credits on top of the original DM 200 million.<sup>12</sup> These sums surpassed all US loans to Greek industrial firms between 1948 and 1956 (\$54.5 million).<sup>13</sup> The very success of this policy, however, had profound economic and political implications. First, the Greek trade deficit towards Germany jumped from less than DM 19 million in 1953 to over DM 162 million in 1957.<sup>14</sup> Second, the swift rapprochement with the Germans, at a time when other small European nations had adopted a policy of symbolic distrust towards West Germany (Frøland, 2006), shattered Greek politics. Conceding lucrative concessions to German firms such as Siemens, represented in Greece by Voulpiotis, widely known as a Nazi collaborator (Kousouris, 2014), did nothing to help in this respect. The so-called Siemens scandal in 1954–55<sup>15</sup> made it clear that a special German–Greek relationship was still difficult to achieve, at least in a bilateral context. Those who had masterminded the rapprochement between the two countries, and who were its main beneficiaries were marginalized or, as in the case of Bodossakis, gradually weakened, and new business interests emerged (Tsakas, 2015, pp. 87–99).

### *The Europeanization of German–Greek Relations (1957–66)*

In response to the economic and political consequences of the early German–Greek rapprochement, the two parties began to pursue their bilateral relations chiefly within a multilateral European framework. In order to prevent the widening trade deficit from threatening monetary stability, Greek officials set two main goals: first, Greece was to secure abundant foreign aid on a longer-term basis; second, regardless of the desired restructuring of its foreign trade in favour of industrial exports, in the short term the country was to maximize its revenues from agricultural exports.<sup>16</sup> Initially, the Greek government tried to achieve these goals through its early participation in negotiations for a wider FTA in the context of the OEEC. Soon, however, Greek proposals for a Development Fund met British and French resistance (Svolopoulos, 1992b, pp. 279–80), while Britain opposed arrangements regarding agricultural products (Minotou, 2002, pp. 258–87).

Those reservations were hardly unforeseeable. As early as July 1957, three months after the signing of the founding treaty of the EC, the Greek government asked the Germans about the proper course of action for Greece: should the country pursue entry into the EC or should it simply be part of the FTA in the context of the OEEC? The German response

<sup>11</sup>Zusammenfassung der dokumentierten und z.Zt. in Bearbeitung befindlichen Großprojekte, die in den Rahmen des Kreditabkommens zwischen der BRD und dem Königreich Griechenland fallen können. Abkommensprotokoll vom 11./21. November 1953. Bearbeitungsstand 6. September 1958, BAK, B102/57218.

<sup>12</sup>Erhard (BMW) and Papaligouras (Minister of Coordination), Protocol on the negotiations between the Greek Delegation under the Minister of Coordination, Mr. Papaligouras and the German Delegation under the Minister of Economy Prof. Erhard 19–21/9/1955, Konstantinos G. Karamanlis Foundation, Konstantinos Karamanlis Archive (IKK/AKK) Athens, F2A.

<sup>13</sup>American Aid Loans Granted to the Greek Economy between 1948 and 1956, National Archives and Records Administration at College Park, RG469, Series: Subject Files, 1949–57, UD1221, Box 12: Finance: American Aid Loans, 1957.

<sup>14</sup>Haas (Auswärtiges Amt), Aufzeichnung: Die deutsch-griechischen Wirtschaftsverhandlungen, 5/12/1958. Attachment: Der Außenhandel Griechenlands, BAK, B102/58097.

<sup>15</sup>Clemens (Siemens) to Busse (Siemens), Voulpiotis, 11/2/1969 (attachment Notiz: Personen- und Zeittafel, 10/2/1969), Historisches Archiv Siemens, Berlin, F 18013/18014.

<sup>16</sup>Minutes of talks at the Federal Ministry of Economic Cooperation on Sunday 7 July 1957, IKK/AKK, F3A; Pesmazoglou to Karamanlis, Essential developments in the negotiations over the Free Trade Area. Basic remarks and conclusions [8/1958], IKK/AKK, F6A.

was somewhat vague, probably reflecting the tensions between Chancellor Adenauer and the German Foreign Office, on the one hand, and Erhard and export-oriented business circles, on the other (Küstners, 1983; Schulte, 1996; Rhenisch, 1999), but it stressed the advantages of the Common Market for Greek agricultural products.<sup>17</sup>

In 1958, Adenauer and Karamanlis signed an agreement, which provided for a German aid totalling another DM 200 million under exceptionally favourable terms; additional credits for industrial projects in Greece up to DM 100 million; and an annual sum of DM 3 million for technical aid over a five-year period (Svolopoulos, 1992b–97b, pp. 297–300). Germany had already made similar agreements with other developing countries in Europe and elsewhere (Grünbacher, 2001, 2004). What was truly novel in this agreement, however, was that for the first time the level of direct German aid was explicitly linked to future West German contributions to aid for Greece within multilateral European contexts, whether the Common Market or the FTA. In the aftermath of the OEEC debacle, Greece applied for association with the EC. After prolonged negotiations over the level of financial aid and the promotion of agricultural imports from Greece – both being met with reluctance by the French and Italians – the agreement was signed in 1961 (Botsiou, 1999, pp. 397–415; Pelt, 2006, pp. 160–3).

#### *Europeanization under Authoritarian Rule (1967–74)*

In reaction to the 1967 military coup, the EC ‘froze’ Greece’s association later that year. Although this decision put on hold the negotiations over agricultural policy, the so-called freezing did not affect the reciprocal process of tariff reductions on manufactured products. In fact, all EC tariffs had been removed by mid-1968, earlier than originally scheduled. But the European Investment Bank blocked disbursement of the \$55 million as-yet-unused portion of its original \$125 million commitment to provide infrastructure loans to Greece, and the European Commission decided not to renew the financial support scheme. The EC’s selective sanctions contributed, indirectly, to the modernization of Greek foreign trade: as a proportion of total Greek exports, industrial exports rose from 16 per cent in 1967 to 46 per cent in 1973, with exports to the Common Market responsible for most of the increase. The transformations undergone by the Greek economy during the 1960s and early 1970s strengthened pro-EC attitudes in Greek business. Meanwhile, Greek industries relied heavily on imports of capital goods from the EC, which not only resulted in increased business contacts, but also raised the costs of a potential breach between the two sides (Tsakas, 2020).

West German economic diplomacy and German–Greek business networks were crucial in blocking further EC sanctions against Greece. Fritz Berg, the longstanding president of the Bundesverband der Deutschen Industrie (BDI) – the main German business association – convened the 1969 annual meeting of the Union of Industrial and Employers’ Confederations of Europe (UNICE) in Athens, despite official West German scepticism and the opposition of the European Commission. UNICE put pressure on the European Commission, calling for a reactivation of Greece’s association with the EC and citing no concerns about Greek domestic politics. Meanwhile, the Federation of Greek Industries (SEV), the most important Greek business association, did everything

<sup>17</sup>Minutes of talks at the Federal Ministry of Economic Cooperation on Sunday 7 July 1957, IKK/AKK, F3A.

possible through its Brussels office and through bilateral channels with its UNICE counterparts to avoid a tough choice between strong government and access to the Common Market (Tsakas, 2020). Towards the end of the dictatorship, visits to Greece by high-profile German officials resumed: for example, the Secretary of State Paul Frank visited Athens in 1972.<sup>18</sup> In late 1973, the newly appointed West German ambassador to Greece recommended that the German government offer to support a military-controlled transition to democracy.<sup>19</sup> Similar deliberations took place within European Commission circles,<sup>20</sup> and the pursuit of a rapprochement with the EC was one of the key reasons behind moves toward political liberalization in Greece,<sup>21</sup> before an authoritarian backlash put these plans on hold.

### *From Authoritarian Breakdown to EC Membership (1974–81)*

The fall of the dictatorship triggered the Greek quest for a swift entry into the EC. Apart from shifting foreign policy priorities as a result of the Cyprus crisis (Miller, 2009; Rizas, 2008, pp. 491–492), the arms race with Turkey exacerbated the need for foreign capital inflows as an integral part of Greece's strategy for EC membership. That need was met largely by West German financial sources.<sup>22</sup> Despite the deep recession of the Greek economy in 1974, the West German Foreign Office emphasized that Greece's economic progress in the previous years would allow for its full integration into the Community and it recognized Greece as one of the industrialized nations.<sup>23</sup> After weighing the prospective financial burdens of Greek membership with respect to the regional policy of the Community and German domestic social policies (given the large number of Greek workers in Germany), the West German government made up its mind in favour of the Greek application.<sup>24</sup> In the second half of 1978, the German presidency of the Council of Ministers proved crucial for the successful conclusion of the negotiations on the Greek application and Greece eventually signed an accession treaty in May 1979 (Karamouzi, 2014, pp. 144–68).

Meanwhile, the orientation of Greek industry towards the Common Market played a key role in the emergence of SEV as an influential pro-EEC actor, seeking to promote a free-market agenda at home. In late 1974, UNICE took a strong position in favour of Greek entry<sup>25</sup> and in the following year an official BDI visit to Athens heralded a period

<sup>18</sup> Auswärtiges Amt, Kabinettsitzung am 10. Oktober 1972: Unterrichtung über die Reise von StS Frank nach Griechenland und in die Türkei, 9/10/1972, Politisches Archiv des Auswärtigen Amtes, Berlin (PA AA), B26, Bestellnr. 436.

<sup>19</sup> Oncken (Botschafter der BRD Athen) to Auswärtiges Amt, Liberalisierungstendenzen in der griechischen Innenpolitik: Motivierung, 22/9/1973; Oncken to Auswärtiges Amt, Liberalisierungstendenzen in der griechischen Innenpolitik: Vorschläge für den Fall der Ernennung von Markezinis zum Ministerpräsidenten, 24/9/1973, PA AA, B AV Neues Amt, Bestellnr. 14,584.

<sup>20</sup> Directeur General (DG1), Note à l'attention de Sir Christopher Soames, Vice-Président de la Commission: Les relations CEE-Grèce, 16/10/1973, Historical Archives of the EU, Florence (HAEU), BAC.050.1982\_0028.

<sup>21</sup> Hooper (British Ambassador in Athens) to Goodison (FCO), Greece and the EEC, 25/10/1973, The National Archives, Kew (TNA), FCO 30/1782.

<sup>22</sup> Auswärtiges Amt, Deutsch-griechische Ministergespräche am 9.9.1974, 10/9/1974, PA AA, B200, Bestellnr. 105,623; and Staatssekretär Pöhl, Vermerk, 29/7/1975 (and attachment: Ungebundener Finanzkredit. Sachstand), BAK, B136/30497.

<sup>23</sup> Auswärtiges Amt, Hausbesprechung Griechenland am 19.8.1974: Ergebnisprotokoll, 20/8/1974, PA AA, B200, Bestellnr. 105,623; Auswärtiges Amt, Beitritt Griechenlands zur EG, 1/10/1974, PA AA, B200, Bestellnr. 105,611.

<sup>24</sup> Botschaft der BRD to Auswärtiges Amt, Beitritt Griechenlands zur EG, 30/4/1977, PA AA, B200, Bestellnr. 114,306.

<sup>25</sup> *Deltion SEV*, 299, 15/12/1974.

of intensified German–Greek business contacts.<sup>26</sup> Yet inflationary responses to the crises of the 1970s and the gradual shift towards a demand-led growth model posed new challenges to the Greek economy. When confronted with the first independent studies of the effects of Greece’s membership, both the West German and Greek governments downplayed fears over the future of Greek manufacturing.<sup>27</sup> As had been the case at the time of Greece’s association with the EC in 1961, however, an in-depth analysis of the prospective impact of EC-membership in this new era was still missing at the time of the accession treaty.

## Conclusions

The VoC approach is typically seen as opposite to Europeanization, since the former places emphasis on sustained divergence and the latter on increasing convergence among national economies and institutions. Scholars such as Featherstone (2008) and Menz (2005), however, have posited that the two perspectives are not necessarily contradictory and that they can be combined to produce empirical explanations. My findings are in line with this interpretation: this article, making use of the concept of growth models and accounting for the Europeanization of the Greek foreign trade, has shown that the Greek economy followed a peculiar developmental path through integration to the Common Market.

This case study underscores the need to overcome a success-failure dichotomy in the narrative of the European project. For it was the success of Greece’s European strategy that led to a structural trade deficit which could only be alleviated by foreign capital inflows in the form of aid, loans or investment, and invisible receipts from the shipping sector, immigrants, and, later, tourism. In studying the history of the German–Greek relationship in the context of European integration, this article has highlighted the role of West Germany and German–Greek business networks in the shaping of the Greek growth model. It was the early rapprochement between West Germany and Greece, and their mutual accommodation of their respective aims, rather than the (still present) bitter memories of the past, that laid the foundations of their asymmetrical interdependence and its political and economic implications. The original form taken by the post-war Greek model was not that of demand-led growth (which became prevalent at a later stage when the Greek economy underwent de-industrialization in the 1980s and 1990s). Rather, the Greek model was based on the production of intermediate products oriented towards the Common Market. Facing the political and economic challenges of the 1970s, and despite Europeanization of the Greek foreign trade, Greece was forced to abandon its pursuit of an export-led growth model precisely at the time when the country entered the EC.

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<sup>26</sup>BDI, Griechenland: Delegation des Bundesverbandes der Deutschen Industrie. Dezember 1975, BDI Archiv, Berlin, S Dok 57.

<sup>27</sup>Heimpel to Trumpf, 15/12/1976; and the attached Deutsches Institut für Entwicklungspolitik, Stellungnahme zur Erweiterung der Europäischen Gemeinschaft um Griechenland, Spanien und Portugal, PA AA, B200, Bestellnr. 114,303; *Oikonomikos Tachydromos*, 13/4/1978.

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