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AMERICAN EMBASSY

Athens, Greece, July 8, 1949.

868.002/7-849

SUBJECT: Comments on the Character and Recent Record
of Prime Minister Alexander Diomedes to *B. L. Coddington*

REC'D
JULY 18

Action Taken *No action
required*

ACTION
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THE HONORABLE

SECRETARY OF STATE,

WASHINGTON, D. C.

Date of Action *July 22, 1949*

Action Office Symbol *131*

Name of Officer *John L. Coddington*

Direction to DC/R *file*

INFO
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SIR:

I have the honor to refer to the Division of Biographic Information's report on Alexander DIOMEDES of June 27, 1947, and to offer the following comments on his more recent record and his character. Diomedes was chosen as Deputy Prime Minister in the Coalition Government formed on January 20, 1949, and was sworn in as Prime Minister June 20, 1949, when the Coalition Government was reformed following the death of Prime Minister Sophoulis.

Diomedes has been a prominent, but largely unpolitical figure in Greece for many years. He is now seventy-three, and throughout most of his life has been primarily a financier and banker, serving as Governor and later President of the Administrative Council of the National Bank of Greece, the largest commercial bank in the country. After being educated at the University of Athens and in Germany in law and economics, he entered politics in 1911 as a prominent figure in the new Liberal Party organized by the elder Venizelos, and served as Minister of Finance in 1912-1915, and again in 1919. His associations with the National Bank of Greece and with the Bank of Greece (the bank of issue, which he was instrumental in establishing) grew out of his earlier political career, but from 1919 on Diomedes withdrew more and more from active participation in politics. In the early thirties he was associated with the Progressive Party of George Kaphandaris, a satellite party of the Liberals which following the death of its leader in 1945 has apparently been incorporated in the Tsouderos party. His only other post-war venture into politics prior to 1949 was in 1945 when he made an unsuccessful attempt to form a "service (i.e. non-political) government" at the request of the Regent, Archbishop Damaskinos. Diomedes is generally regarded, however, as being of Liberal sympathies, although not a partisan; certainly the present-day Liberals have confidence in him. His political position might be summarized by saying that he is an old-Venizelist and a retired Liberal.

The choice of Diomedes as Deputy Prime Minister in

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By *Kan*, Date *7/20/49*

January arose from the following circumstances. First and foremost were the political considerations. Diomedes was recruited as a non-partisan figure to serve as Prime Minister by Tsaldaris, Venizelos, Papandreou and Canellopoulos in their abortive effort to form a government during the crisis of January 1949. When this attempt failed, largely because of the opposition of the King, Diomedes was asked to serve as Deputy Prime Minister in the new government formed by Sophoulis as a gesture of appeasement toward the four party leaders mentioned above. (see Embassy despatch 185, March 8, 1949). In addition, Diomedes enjoyed considerable prestige. In view of his reputation as a sound economist and financier, it was hoped that his appointment would inspire confidence in the government's efforts toward economic recovery. Further, the advanced age and poor health of the leader of the Government, Sophoulis, which often prevented him from serving actively, required the appointment of a deputy leader who could carry a large part of the burden. It was planned that Diomedes would act as a sort of chief-of-staff in directing and being responsible for the economic and social policies of the Government, controlling and coordinating the work of the ministers concerned. He was also made a member of the Coordinating Council, which replaced the full cabinet as the body determining major policies, and over which he presided during the frequent absences of the Prime Minister. In effect, Diomedes became to a large extent the active head of the Government; but he was handicapped by the fact that he commanded no party support and the party leaders in the Coalition such as Tsaldaris and Venizelos exercised more control over the actions of the ministers who belonged to their parties than did the Deputy Prime Minister. In addition, some Liberal ministers, such as Rendis, would sometimes go over Diomedes' head to Sophoulis and obtain decisions that were wholly inconsistent with the Deputy Prime Minister's policies. The result was a certain amount of confusion of government policy. Also, some of the important economic problems of Greece have become even more acute during the last five months, and the Government's activities in that field have not met with notable success. It would not be fair to blame this deterioration on Mr. Diomedes, but there are some observers who believe that he has not been as effective as he could have been.

The political maneuvers in the week following Sophoulis' death showed the impossibility of forming a partisan government, since no important group save the Populist Party prepared to support Tsaldaris, leader of the largest party, as Prime Minister. The only solution proved to be a return to the previous broad coalition (Populist-Liberal-National Union) with Diomedes moved up to the Premiership. It is fair to say that the decision to place him in that position was not due to the feeling that he was the obvious national leader or the man best qualified because of his political stature, but rather because as a prominent non-political figure he was the only choice to whom no one had unsurmountable objections. The popular reaction to the formation of the Government reveals the same attitude: no one is especially enthusiastic about

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the new government or is over confident that it will be able to accomplish a great deal but, on the other hand, almost all observers agree that Diomedes' selection seemed to be the best one possible.

It is difficult to forecast how effectively Diomedes will be able to function as Prime Minister. He will probably continue to have difficulty working with ministers who will look rather to their party leaders than to him. For example, Diomedes wanted to make it a condition of his acceptance that the Minister of Finance, Helmis, be replaced by another Populist because he disagreed with Helmis' economic theories and clashed with him temperamentally. Tsaldaris refused to agree to this, and Diomedes had to back down. It is still quite likely that Helmis' presence in the cabinet in a position of such importance in the economic recovery program will cause trouble for Diomedes. However, Diomedes has one source of strength which may help him to control the situation, namely his apparent present indispensability. As Prime Minister he is now in a position to exercise full responsibility, and will no longer be subject to being over-ridden, as sometimes happened with Sophoulis. Diomedes is a stubborn man and is determined to carry out his ideas. For these reasons he may not be as ineffective as Prime Minister as he was as Deputy Prime Minister.

In his personal relationships Diomedes is an affable, courteous and considerate gentleman. He is highly intelligent, well informed on a wide range of subjects, and is an interesting conversationalist. He regards himself as being primarily an economist. He has recently published "The Greek Monetary and Credit Problem" (copies of which were forwarded to the Department under cover of Despatch No. 83 of January 28, 1949). He has other scholarly interests, having specialized in Byzantine history for many years and written several books on the subject. His scholarly achievements resulted in his being elected to the Academy of Athens in 1947. A few regard him as a poseur and a dilettante, but the general impression is that he is a soundly educated and cultured man.

In the last few years he has devoted most of his time to intellectual pursuits and has been less active in financial circles. He served as President of the Supreme Reconstruction Council after the war, but resigned that position in October 1948. On his appointment as Deputy Prime Minister in January 1949, he resigned from his positions in the National Bank of Greece, the State Railways, and the Telephone Company. It is believed that he has now severed all connections with private and quasi-state business interests.

Diomedes, a man of typically European culture, speaks excellent French, good German, but little English. Despite his age he is very alert intellectually and spry physically. He and his wife live in a large, tastefully furnished apartment in the winter and in the summer at their lovely estate-garden in Kiphissia. They live and entertain simply but with good style. Personal relations with them are pleasant and easy.

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The impressions of the American officials in ECA who have had dealings with Diomedes have not been too favorable. One of them describes him as a petulant, obstinate and doctrinaire old man, who fancies himself to be an excellent economist which he is not. This official goes on to say that Diomedes does not acquit himself well in conducting committee meetings: he easily becomes angry and impatient and seems to be unable to control and steer the discussion as a good chairman should. Another well-qualified observer put it more kindly by describing Diomedes as having a good mind, and as being a person of scholarly inclinations whose economic theories do not coincide with those of the American economists here. Most observers agree that he is not a strong man, in the sense that he does not have the personality required of a real leader.

A number of our ECA officials feel that Diomedes is not to be relied on and that he has not always "come clean" with them. They cite the example of the civil servants' strike of May 1949 during which, they say, they received a definite commitment from Diomedes in behalf of the Greek Government that there would be no concession in the way of salary increases. Diomedes did, however, permit the question to be reopened with the representatives of the civil servants without consulting ECA, and agreed to certain financial concessions, including a loan of one month's salary to the civil servants to be repaid in instalments after July 1. Under this agreement, the salaries of the civil servants would be studied by a joint committee of civil servants and the Government, and re-adjustments upward would be made effective July 1. Many Americans in ECA were greatly displeased with this action, since substantial increases to the civil servants who constitute a large proportion of the wage and salary earners in the Greek economy would contribute to a serious budget deficit and would violate the agreed economic policy of attempting to hold the line against further inflation. They regarded Diomedes' reversal as a sign of weakness and unreliability. In his defense, however, it must be said that the striking civil servants had strong popular and political support for their demands, which were generally felt to be amply justified.

Another source of friction between Diomedes and ECA/G has been their disagreement on the proper economic policy for Greece. This explains in part the opinion that Diomedes is not a good economist and that he tends too much to interpret Greek economic problems from the private banker's point of view.

Diomedes has strongly criticised the financial policies followed in Greece by previous governments in collaboration with the American Economic Mission, and is highly critical of the system of controlled economy now being applied. He says that the Greek productive effort is being strangled by the nightmare of the government accounting office and wrongly applied principles of controlled economy. "The management of Greek economy", he says in his latest book published before his entry into the Government, "is dominated at the very moment of the greatest need for creative effort, both on the foreign and domestic side, by a narrow spirit of

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bureaucracy and intolerable adherence to technicalities which have placed the fluid and ever-moving economic life of the country on a Procrustean bed, lest it should deviate from an ideal pattern allegedly insuring against price increases and promising greater production, low production costs and small wages." Amongst his recommendations which have not met with the favor of ECA/G, but for which he says he will press, are: (1) the purchase of free foreign exchange (dollars and sterling) by all banks for the account of the Bank of Greece at the current open market rate; (2) the use of dollar exchange acquired in this way to set up a special exchange reserve fund to be used for the acquisition of gold sovereigns from the Federal Reserve Bank; (3) the sale of gold sovereigns, for domestic requirements only, at a fixed price in drachmas, such sales having the result of supporting the drachma and sopping up surplus drachmae and thus rendering the note circulation more flexible; and (4) placing at the disposal of local banks, subject to every assurance of liquidity, a portion of the counterpart drachma funds from the sale of imported supplies, these funds to be used by the commercial banks (which means the National Bank of Greece to a large extent) for the extension of more plentiful credit for productive purposes. Diomedes feels that, while he agrees with the long-range reconstruction plans being made by the ECA and Greek officials, not enough effort is being made to solve immediate problems. In other words, as one observer put it, Greece is like a patient suffering from both a chronic and an acute disease. If too much attention is given to solving the chronic disease the patient may die of the acute disease before the remedial measures take effect.

In view of their disagreement on economic policy and the distrust some American officials feel toward Diomedes there may be difficulties ahead, especially if Diomedes insists, as he says he will, on carrying through his proposed policies. On the other hand, Diomedes' talent for compromise and conciliation, at least among the Greek politicians, may ease the situation. His first few days in office have indicated that he plans to be an active Prime Minister, which to many observers and the public is a welcome change from the inactivity of Sophoulis.

Respectfully yours,

For the Ambassador:

Harold B. Minor
Counselor of Embassy

Original parchment to Department
Copy to GTI

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