

Tobacco exports and economic growth in Greece (ca. 1900-1940)

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Expansion of tobacco production in the Ottoman Empire

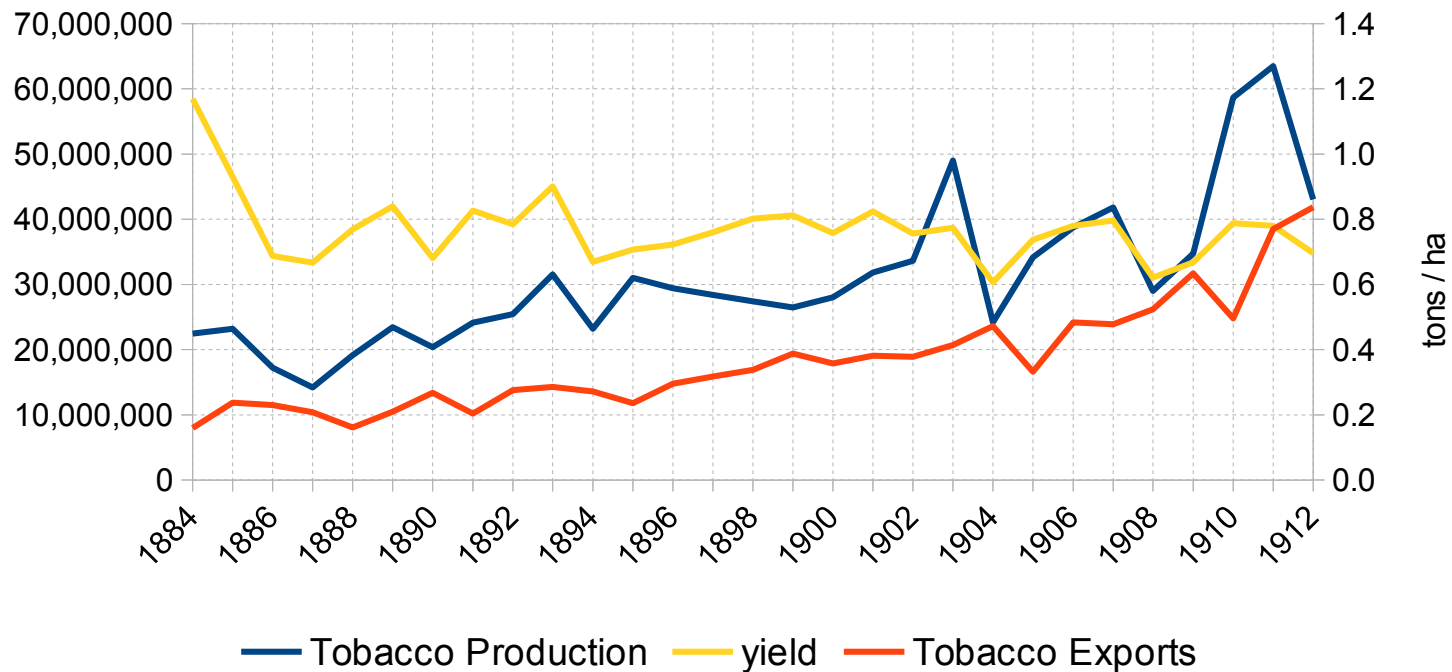
«Oriental» tobacco produced in the Ottoman Empire was a particular brand of tobacco with a strong aroma and characteristic taste.

Highly valued, it was used in cigarettes which were produced locally or even by ottoman manufacturers established in central Europe.

Meticulous sorting is important to differentiate between leafs of varying quality. The product needs careful packaging and storage to keep its original characteristics for as long as possible.

The most sought after produce was usually processed by the exporting merchant house using expert labor. Prices for the best quality tobacco leafs grew significantly after successful processing.

Ottoman tobacco production and exports (kgs)



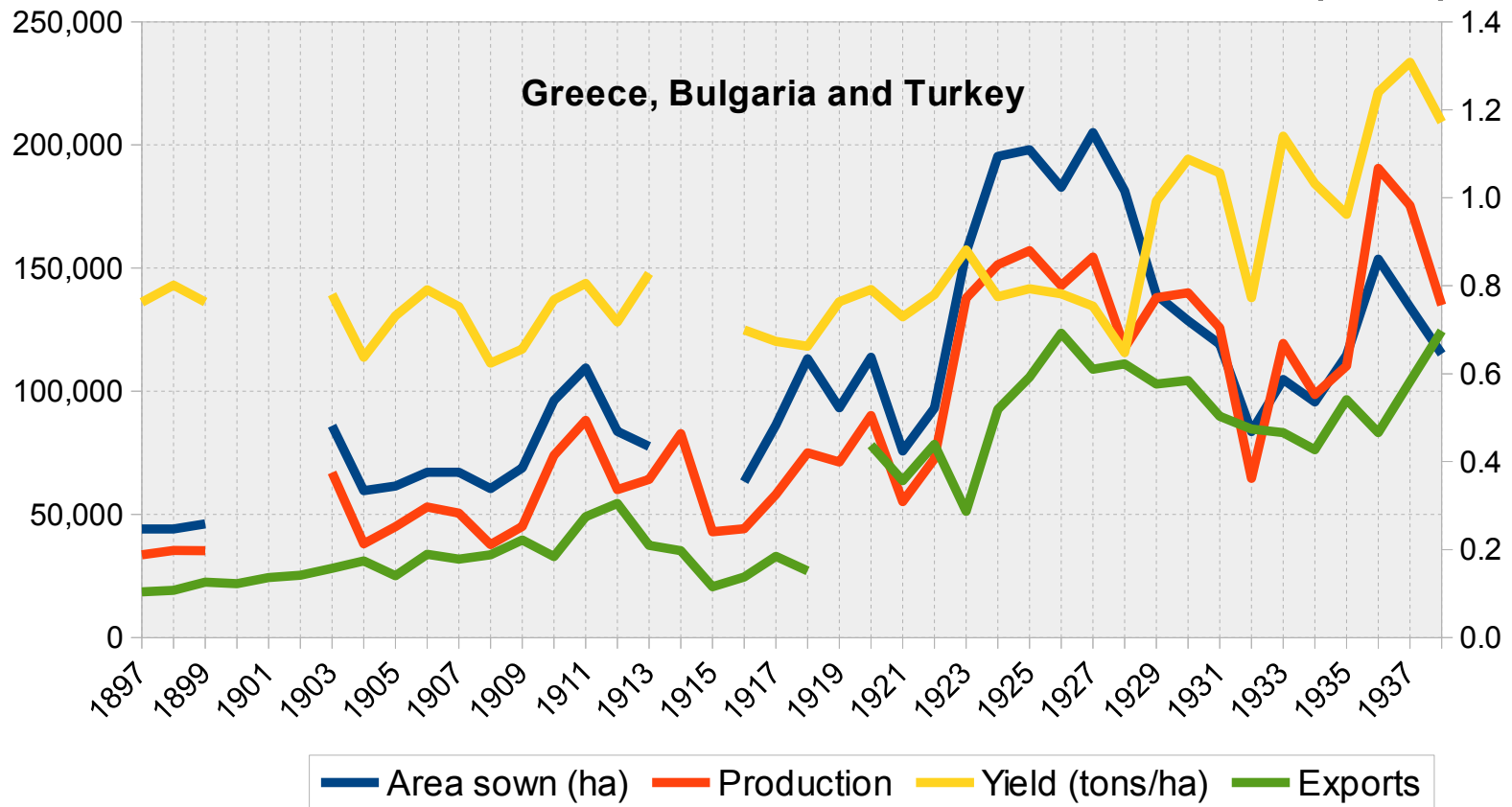
Important but not dominant export product (well under 10% of total value of ottoman exports until 1914).

Rapid expansion of area sown (9% yearly from peak to peak: 1886-1911) and concomitantly of production and exports.

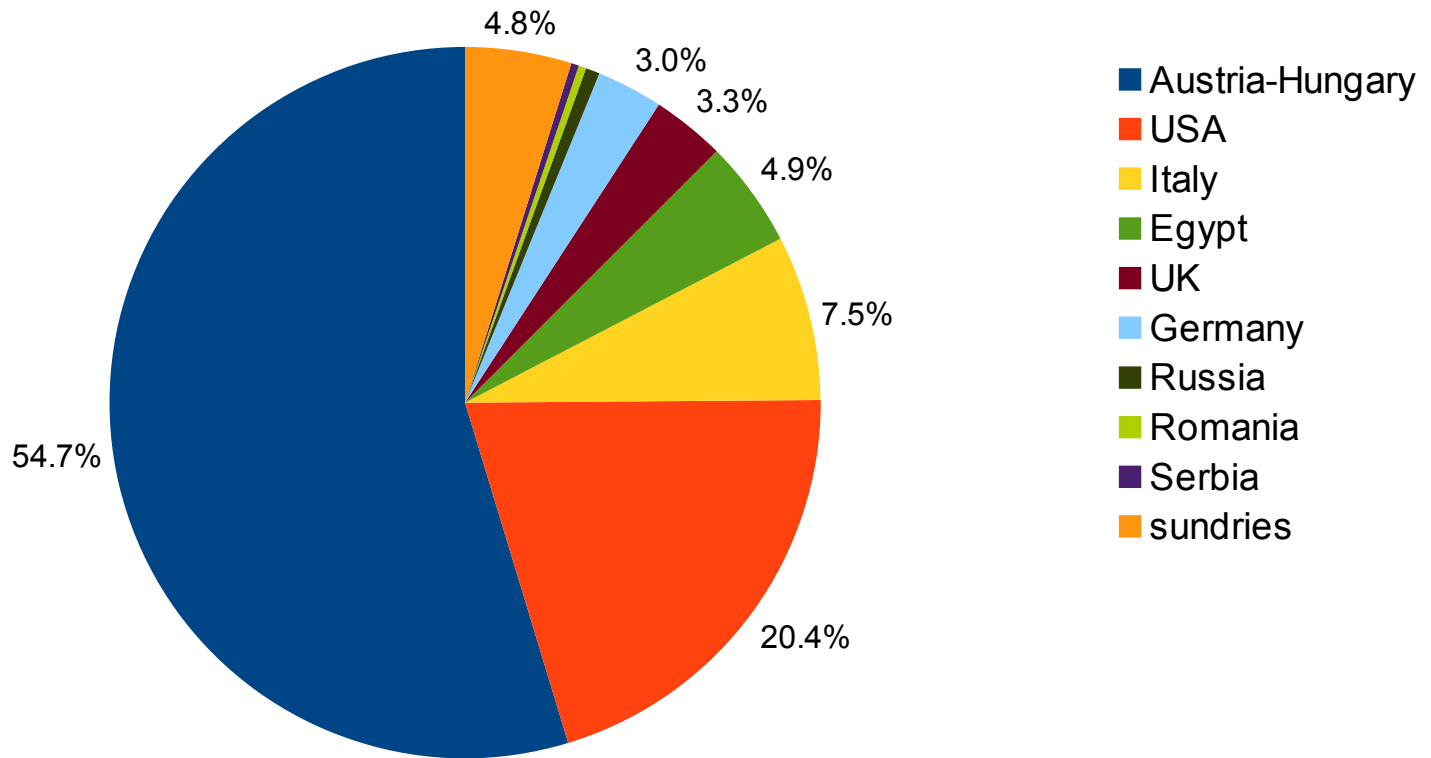
Stagnant yields (and labor productivity), that will persist until the 1960s.

In the long run the growth of the production of «oriental» tobacco in the former Ottoman provinces continued in the Interwar period culminating in 1928

Production and export of Oriental Tobacco (tons)



Destination of Ottoman tobacco Exports (1909/13)



A particular type of tobacco : «oriental» with strong aroma and a faithful market in Central and eastern Europe. Since the late 1890s oriental tobacco is used in USA in blended cigarettes, fetching high prices.

The *Régie cointeressé des Tabacs Ottomans* (1883-1924) as a paragon of Globalization

Export of Ottoman Tobacco was free.

Since 1881 (imposition of Foreign Control over the Ottoman Finances) tobacco production was under the control of the *Régie cointeressé des Tabacs Ottomans*, a private organization (Capital 4 million £) owned by French, Austrian and German Banks.

The *Régie* had full monopsony of production destined for internal use, a monopoly of cigarette production, and handled (stored and registered) *all* production (even exported produce).

It offered cheap credit and guaranteed prices to producers but strictly controlled quality of production and limited the number of producers. Had own force preventing contraband trade and often clashed with local authorities and the imperial administration.

The *Régie*, a product of Imperialism and Globalization, did not prevent the freedom of export trade, and made handsome profits from imposing a monopoly on internal trade and manufacturing.

Dividing Ottoman spoils

The Balkan Wars (1912/3) doubled the size and population of Greece and changed its ethnic composition.

Comparable impact for the other Christian Balkan countries.

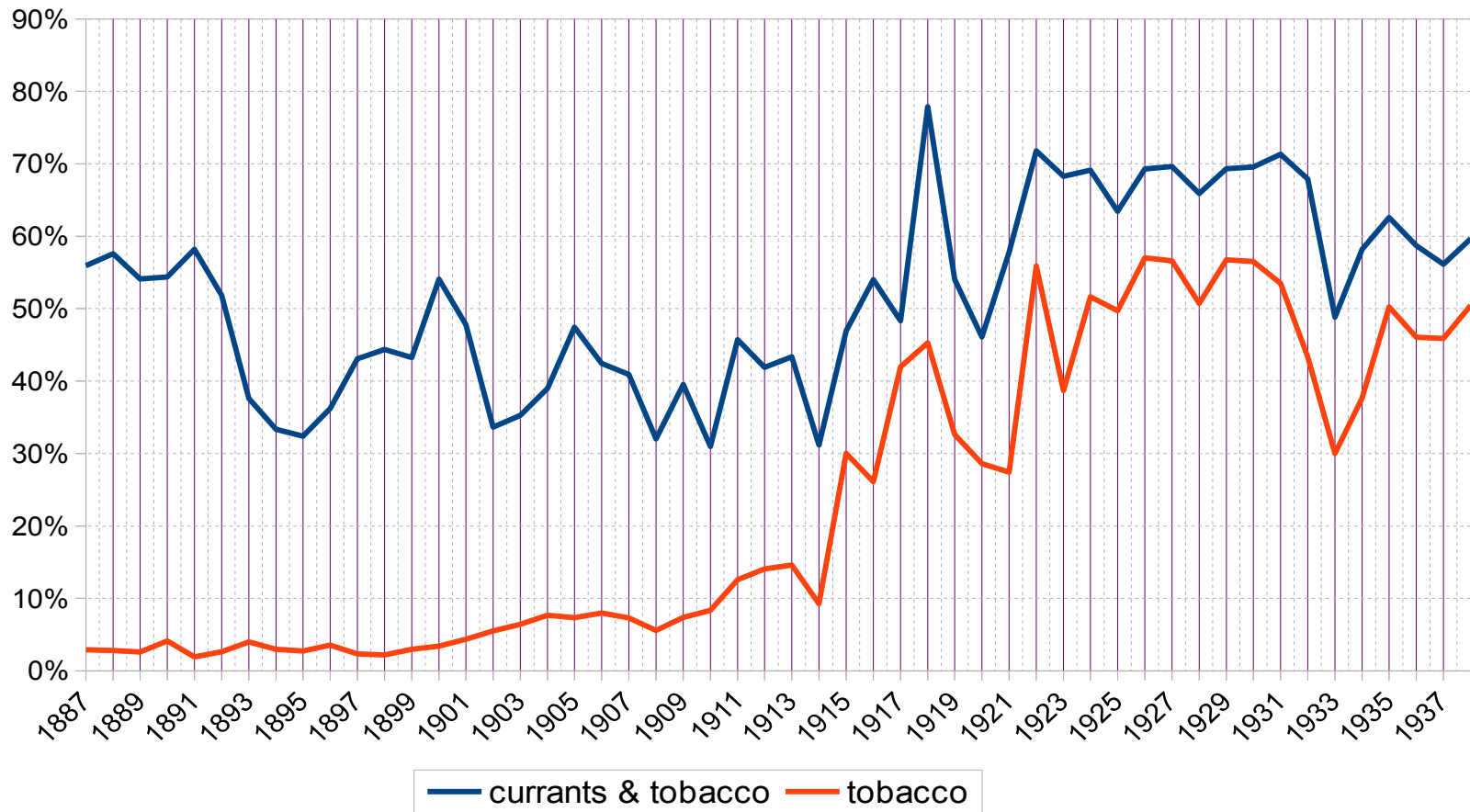
Maybe half of the total area planted was located in the Ottoman Balkans (Macedonia and Thrace), and will be divided between Greece, Bulgaria (and to a lesser extent Serbia).

Greece Bulgaria and Turkey will become the major exporters of oriental Tobacco to the world (esp. USA and Germany).

Tobacco will have paramount importance as the major export product of Greece and Bulgaria.

Foreign exchange, fiscal revenues, supplementary farm income, industrial employment and social stability depended upon tobacco prices and exports.

Tobacco and Currants as % of the total value of Greek Exports



In Greece tobacco supplanted currants as the major export product. Tobacco and currants covered 2/3 of the total value of Greek Exports in the Interwar period.

Tobacco exports in the Interwar

Tobacco producers were price takers and a part of them have been guided by export prices.

Greek Merchant houses were dependent upon large Industrial importers and State Monopolies that were able to impose prices and cut their profits.

After 1918 the % of oriental tobacco in US blended cigarettes fell from 30% to ca.15% while demand in Central European markets plummeted until the early 1920s. Prices and demand were extremely volatile in the short run and Merchants were important in replying to this situation.

But in the long run demand and prices guided production: annual % of tobacco exported was volatile, but the cumulated % was much more stable.

Tobacco exports in the Interwar

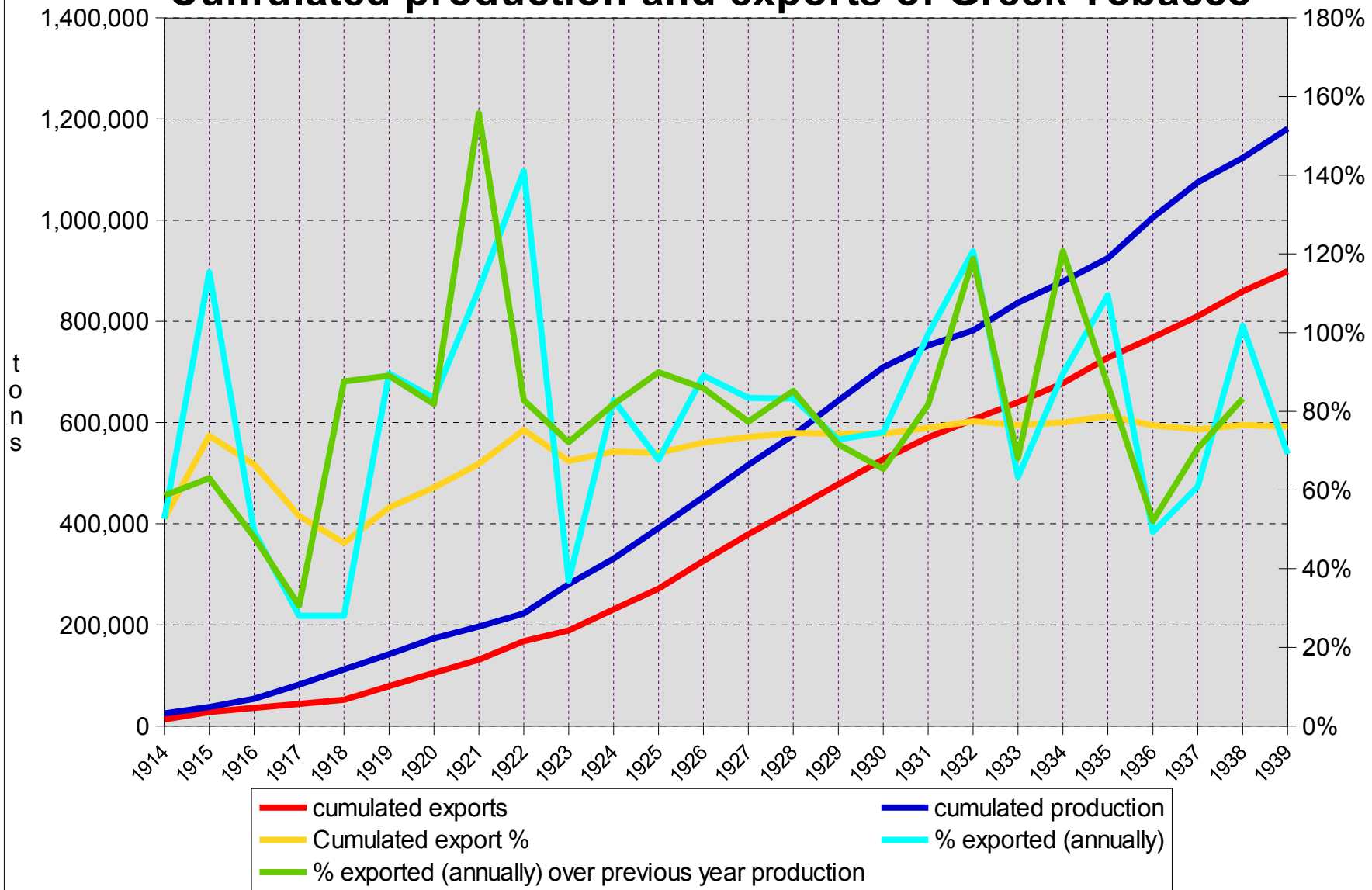
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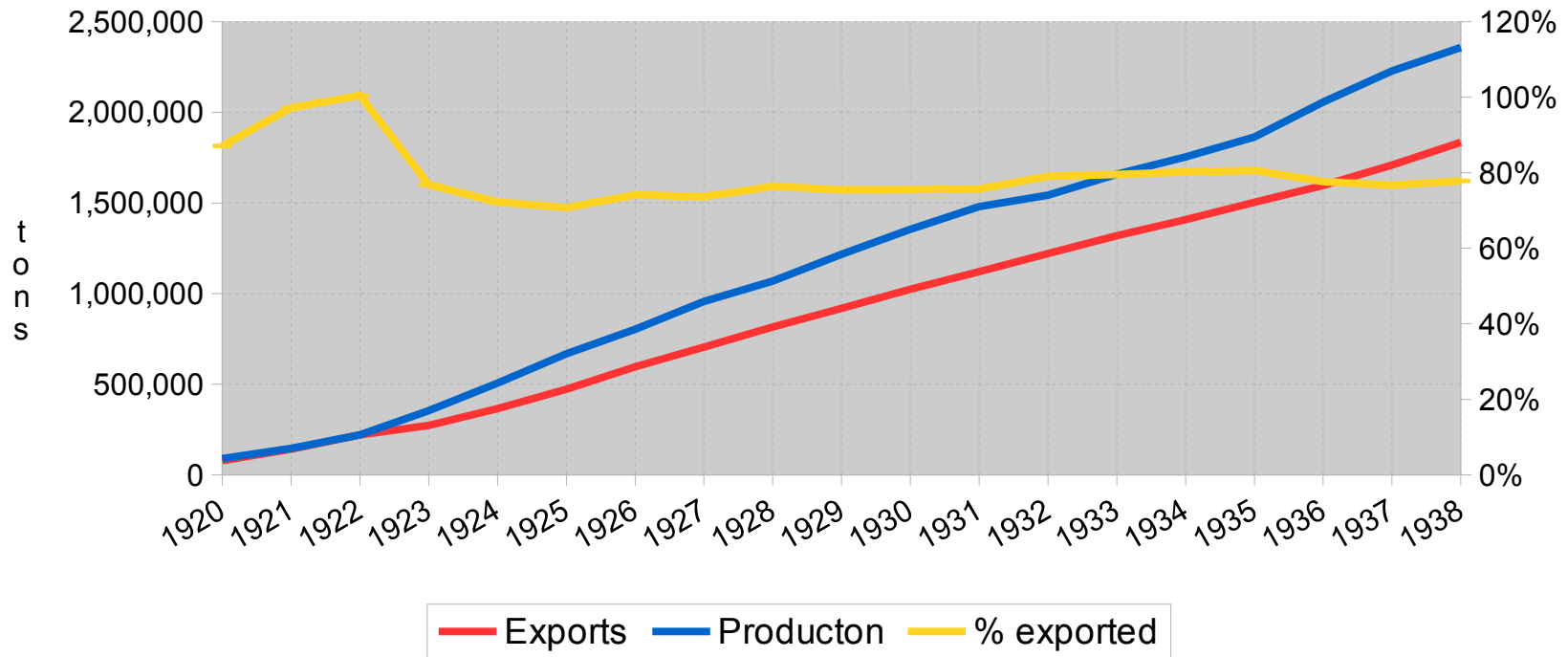
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Cumulated production and exports of Greek Tobacco



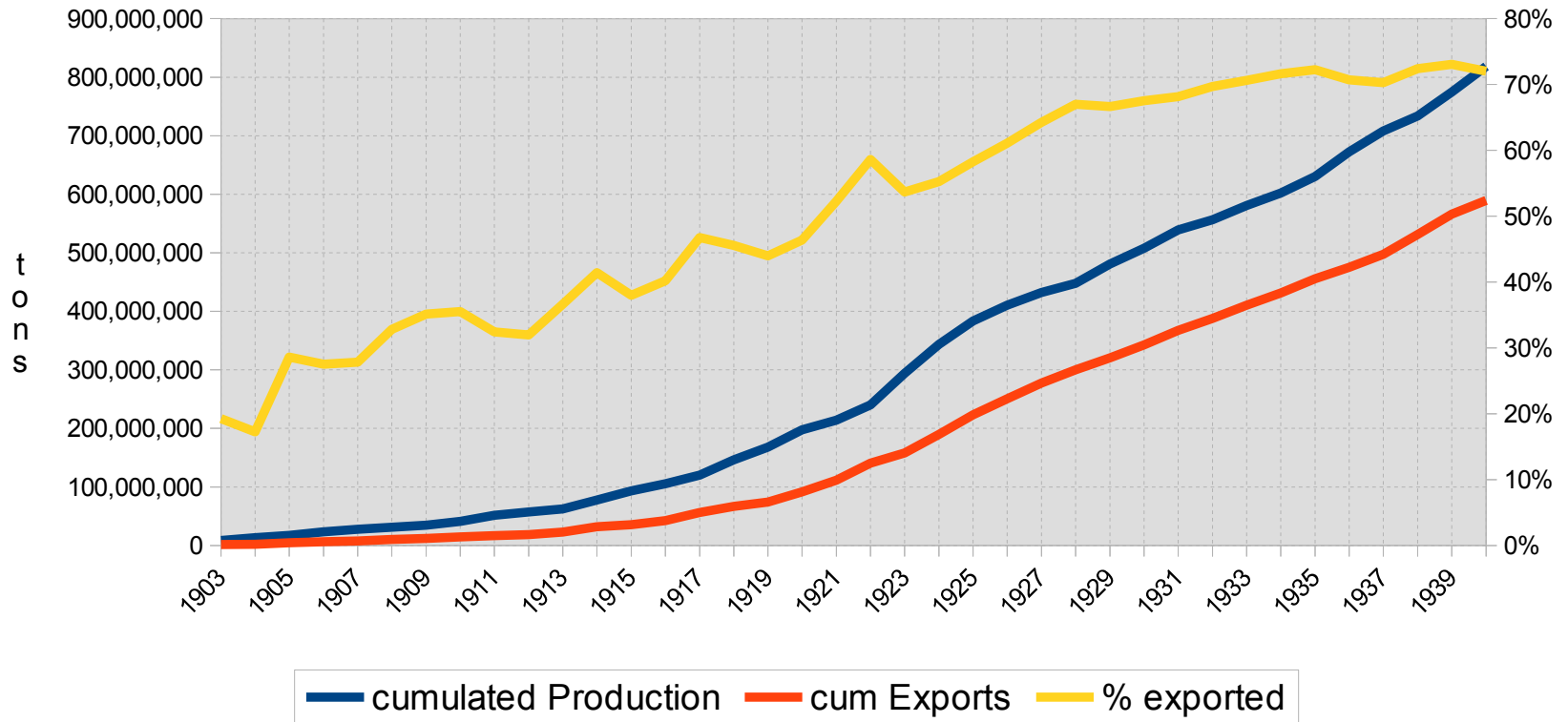
Cumulated Producton and Exports of Oriental tobacco

data for Greece, Bulgaria and Turkey only



The same long term persistence of percent exported is observed for oriental tobacco during all the Interwar period.

Cumulated Production and Exports of Bulgarian Tobacco



and for the Bulgarian case is comparable...

The peasant tobacco economy

Schematically: two different group of tobacco producers.

- i) small size upland agro-pastoral households, which were almost entirely dependent of tobacco quasi-monoculture for their necessary *cash* income. Thus the area sown was slow in responding to prices and demand. (Located esp. in **Eastern Macedonia and Western Thrace**). Best quality product.
- ii) (mostly) medium-size lowland agriculturalists, who engaged in tobacco guided by international prices/world demand. They change their culture mix accordingly and thus the area sown fluctuated. Medium quality product. (Located esp. in **Western and Central Macedonia**)

In general use of family labor and very timid use of salaried labor. A part of the processing (productive processing) takes part in the peasant household.

The southern Greek tobacco production was mostly destined to the indigenous cigarette industry which was located near the production (Agrinio, Lamia, Volos) or the major consumption (Athens, Salonica) urban centers.

Merchants and producers

Merchant capital entirely controls the financing of peasant production, collection, storage and processing of tobacco in special warehouses, and finally export of production.

A complex network of Merchants, brokers and local «tobacco experts» mediate between producer and final buyer. They try to fix low prices and profit from the difference.

World taste and the policy of cigarette industries (i.e. the % of oriental tobacco in US blended cigarettes) will eventually decide upon the price of oriental tobacco.

Tobacco trade and processing

Tobacco is a *labor-intensive* agricultural product, which once commercially processed (i.e. when more value is added from expert *artisan* labor) has its price multiplied.

Commercial processing guarantees standardization of production and conservation of product quality.

World Cigarette Industries and State Monopolies buy directly [80%] (through commissioned brokers) or indirectly [20%] (through indigenous merchant export houses) tobacco from producers.

Merchants need capital to finance production and processing and warehouses to store production. Being price takers their main weapon would have been storage of surplus (*stock regulation*).

Regional tobacco economy I

Processing (sorting and packaging) is a task demanding experienced and expert artisan (no machine used) labor.

Strict hierarchy (and wage differences) of laborers according to task and *gender*. Each labor group is under the moral and functional supervision of highly specialized expert workers. Expert laborers dispute the ultimate control of processing from the merchant.

Workers are usually organized in radical and militant labor unions, led by expert laborers. Labor strikes in period of high tobacco demand display a tradition of violent and radical activism.

Working in tobacco warehouses is a well paid seasonal activity. A large part of the less-specialized male and female laborers are part-time workers.

Many have strong local peasant antecedents, the exception being recent refugee families. Strong family networks observed in tobacco processing.

Regional tobacco economy II

The bulk of Merchant warehouses is located and laborers live in the network of small towns of the tobacco hinterland, like Serres, Drama, Xanthi and the port of Cavalla in Greece.

They constitute a large part of the local urban population and the basis of regional urban activities. Solidarity of small retail traders with the demands of tobacco workers.

Main disputes with merchants i) control of labor process and labor crew choice; ii) percentage of tobacco processed commercially; iii) mode of commercial processing.

Interwar Tobacco markets

USA and Central Europe (mainly Germany) continued to be the main trade partners for oriental tobacco.

The US were buying the best quality product (esp. Greek and Turkish) for their blended cigarettes, but the central European market bought the largest share, once post-war socio-economic stability was achieved.

Commercial profit and wages

In 1928, in the height of Greek tobacco prosperity, Ach.Mantzaris [the secretary of the Tobacco Merchants National Union] gave the following distribution of the average value of one kg of exported tobacco.

items	
Cost of tobacco (at the farm's gate)	50%
Wages of tobacco workers (processing)	14%
General expenses	16%
Taxation	9%
Merchant profit	11%
total	100%

High wages were guaranteed so long that export of unprocessed tobacco was limited to low quality product. The labor unions have been able to impose such a legislation after to Asia Minor debacle (1922-26). It took a Dictatorial government (1926) and a long depression (1930-38) to effectively squeeze labor cost.

Tobacco and the Greek economy in the Interwar

150.000 producers (~18% of total agricultural population) and 40.000 tobacco workers (supporting 15.000 families).
15.000 merchants and employees involved in tobacco trading and exports (10 million UK £ in 1928).

Tobacco absorbed in average 42%-45% of all agricultural credit provided by the Greek Banking system (1924-1939).

National cigarette industries employed 2.650 blue and white collar employees producing 2,5 billion drs of cigarettes for the local market in 1928.

Maybe one seventh of the active population was directly or indirectly employed in the tobacco economy.

Agricultural Economy, tobacco exports and GDP growth

During the era of the «first» globalization the growth of the Greek agricultural economy (mostly based on exportable labor-intensive and high-income elastic products, like currants and tobacco) was responsible for a large part of the aggregate GDP growth.

In fact, the largest rates are observed when export of cash crops from the world markets boost. During periods of export crisis (p.ex. 1893-1910 for currants and 1929-39 for tobacco) production for the internal market (industrial production in the turn of the century; cereal agriculture and industry in the 1930s) took the lead.

An estimate of the contribution of agriculture to the growth of GDP (following Kuznets model) shows that the rate of change of non-agricultural GDP is lower than that of agricultural product during the periods of rapid agricultural export growth (currants 1870-93, tobacco 1912-29). The 1930s when land in use and cereal yields rose is an exception since agricultural growth supplies internal demand.

Period of change	Rate of change of agricultural product	Rate of change of non-agricultural product	Contribution of agriculture to GDP growth	Rate of change of Contribution between periods
1845-60	4.55%	5.97%	69.26%	
1860-75	3.00%	4.45%	61.72%	-0.77%
→ 1875-87	4.63%	4.55%	66.17%	0.46%
1887-911	2.21%	3.46%	55.36%	-1.49%
→ 1911-30	18.04%	20.05%	56.41%	0.08%
1930-38	8.68%	5.75%	59.75%	0.30%
1938-61	-0.91%	5.08%	28.53%	-9.24%
1971-61	6.82%	10.91%	16.39%	-2.41%

The rate of change of land in use in Greece (1911-1938)

Greece	1927/30 (km2)	War decade	1 st postwar decade	2d postwar decade
cereals	11.230	11%	18%	40%
tobacco	957	8%	151%	-3%
cotton	176	-37%	123%	252%
wine	1.145	17%	-22%	30%
currants	588	21%	-17%	10%
arable-planted	15.822	9%	17%	46%
Northern Greece				
cereals	6.652	29%	39%	47%
tobacco	692	2%	183%	-1%
cotton	61	-38%	142%	309%
wine	191	9%	-5%	45%
arable-planted	8.398	17%	46%	52%

Fiscal revenues from tobacco

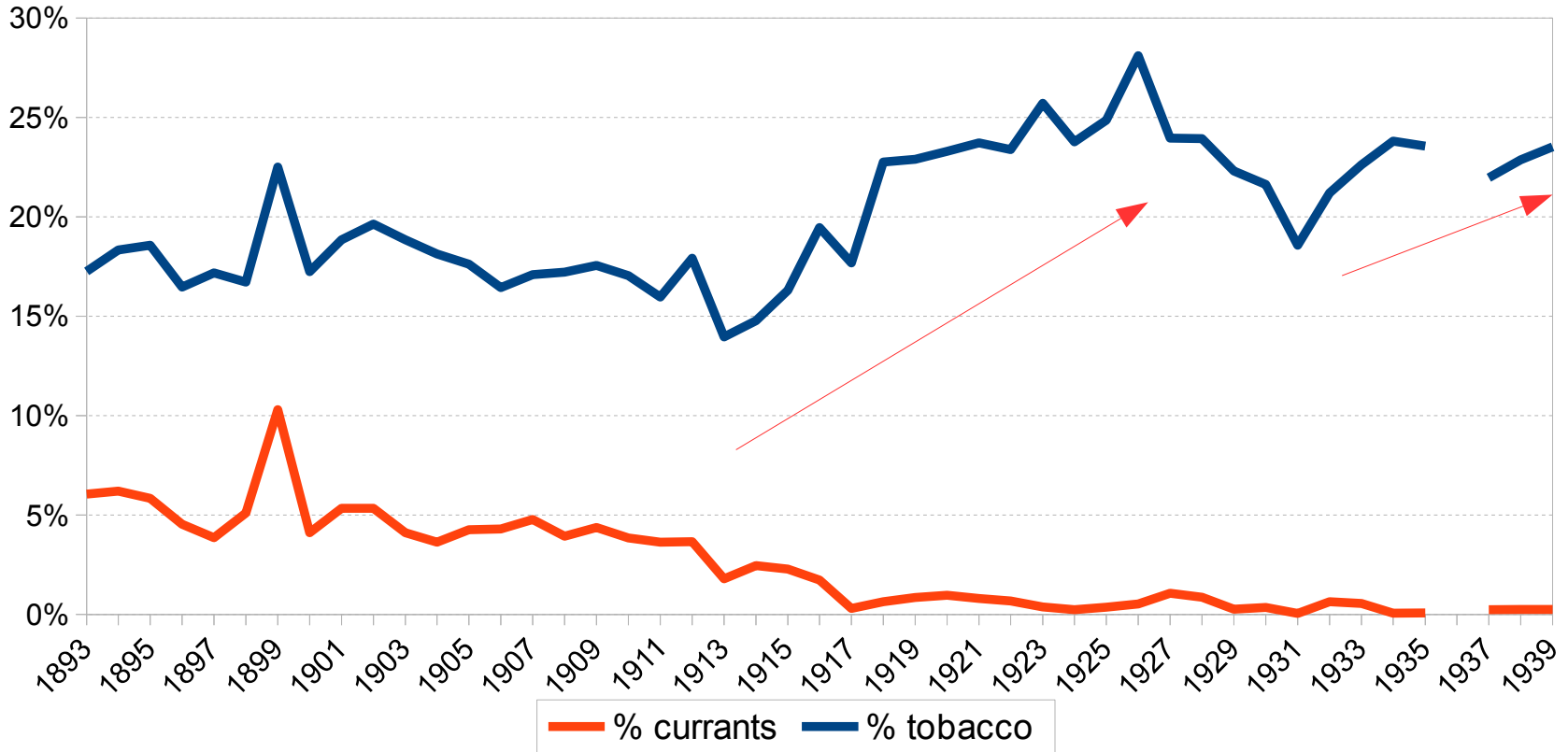
A large part of fiscal revenue depended upon the tobacco export taxation, tax on tobacco production or the indirect taxation on local cigarette consumption.

In the Interwar all Balkan tobacco exporter countries based their strained fiscal budget upon tobacco taxation.

After the 1931 crisis almost all taxation upon agricultural production in Greece was abandoned, with the notable exception of tobacco and olive oil.

State income, and public services were to a large part depended upon the world tobacco trade and prices.

Fiscal revenue from tobacco and currants as % of expected aggregated fiscal revenue



In Greece, during the Interwar period, production and consumption taxes upon tobacco, tobacco exports and cigarettes covered more than a quarter of expected income and were the major providers of additional income in period of crisis.

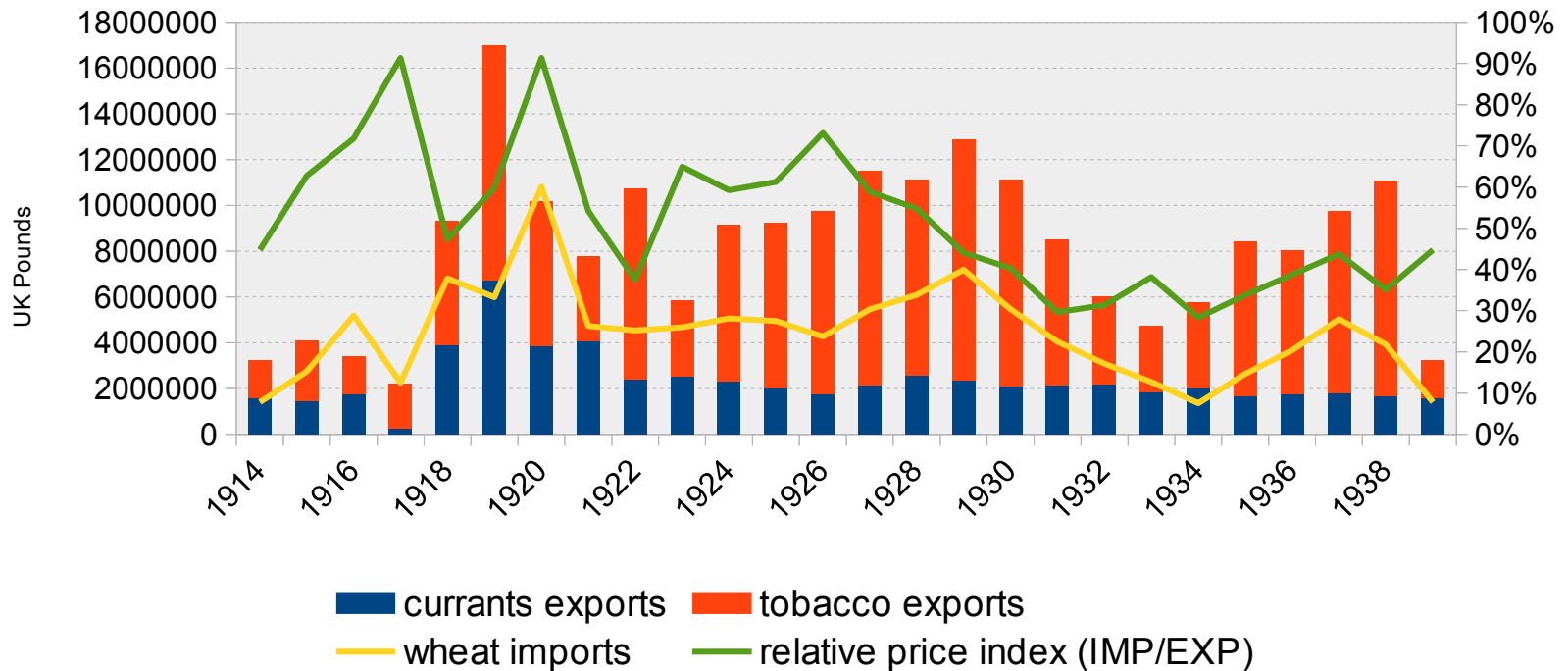
Tobacco and foreign exchange

Tobacco became the major foreign exchange provider of the Greek economy, covering necessary imports of subsistence products (wheat etc). Curreant added a standard value of 2 million UK £.

The 1929 crisis led to a precipitous fall of prices and the value of exported tobacco fell from 10,5 million UK £ in 1929 to just 2.8 in 1933.

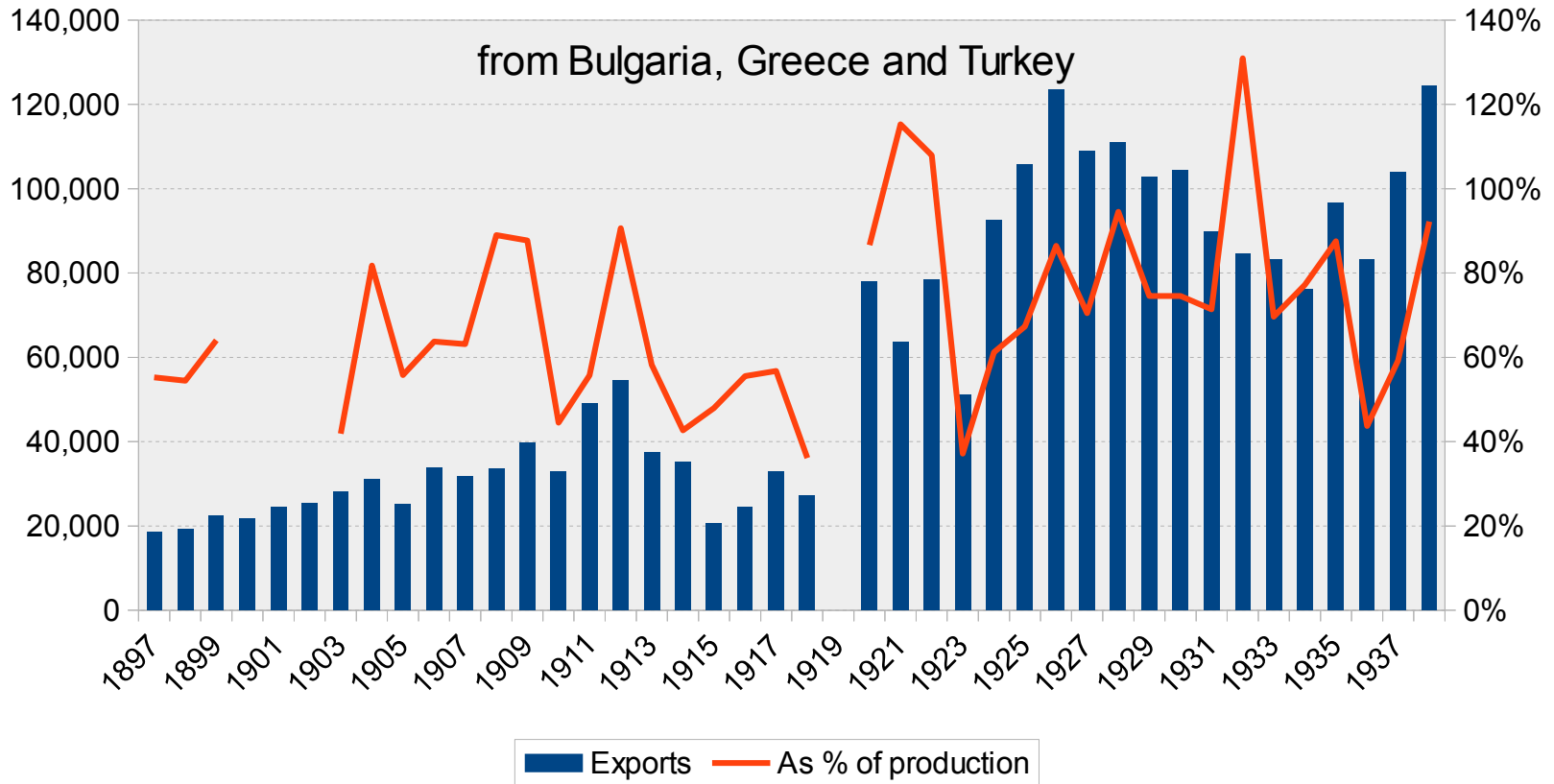
The economic modernization and development project of the last Venizelos government (1928-32) which came to power after the successful stabilization of the value golden drachma and public finances was based upon the assumption of adequate foreign exchange inflows to serve the existing public debt and the ambitious public works program.

International Trade of major Greek Agricultural Products



The relative price index (in the secondary axis) calculates the relative price changes of major agricultural imports (wheat) and exports (currants and tobacco) with constant 1928 volumes

Exports of Oriental Tobacco



Tobacco exports and production closely depended upon geopolitical events and the fluctuations of the World Economy.

Average annual rate of change of oriental tobacco production and exports (estimated from peak to peak years)

		Area sown			Exported volume	
		Period 1	Period 2		Period 1	Period 2
	periods			periods		
aggregate	1920-27 1927-36	11.4%	-2.8%	1920-26 1926-38	9.7%	0.1%
Greece	1920-29 1929-36	17.7%	1.3%	1920-26 1926-35	17.8%	-0.9%
Bulgaria	1920-25 1925-40	6.6%	0.2%	1920-25 1925-39	18.2%	0.2%
Turkey	1920-27 1927-37	20.7%	0.2%	1920-26 1926-38	3.6%	0.1%

Greece in the 1930s

April 1932: Greece defaults on its payment of external public debt service and abandons the Gold Standard.

In the 1930s the price inflation due to devaluation helps fight debt-deflation. The imposition of foreign exchange and trade controls favors the rapid growth of [structurally oligopolistic] local manufacturing at the cost of the quality and price of goods. In the cities unemployment (and living standards) is kept low

Rapid growth of livestock, cereal yields and cereal production is a belated positive effect of the land reform and the colonization of northern Greek lowlands by the refugees the 1920s. Nonetheless, there is a regression of specialization (and culture mix) and labor productivity stagnates.

Rapid rural population growth (1,7% annually 1920-1940) and absence of emigration keeps the countryside packed and underemployed (phenomenon also observed in Eastern and Southern Europe in general [Moore, Warriner]).

Growing political turmoil will help the authoritarian right wing parties to impose the Restoration of the Monarchy (1935) and the imposition of a royal dictatorship (1936-41).

State intervention 1930-33

Since 1930/1, Greece imposes strict quantitative controls on import trade and made an effort to regulate tobacco production and exports (reminding old *Régie* tactics).

1931 Legislation to curb production/collection of lower quality tobacco leaves.

1931-33 State management of unsold surplus (partly destroyed and partly stored and sold with profit).

1930-34 unsuccessful efforts of International cooperation

State policy of ultimately supporting merchants in their effort to «simplify» commercial processing and thus curb-down wages against strong union reactions (strikes etc).

1930-33 : unsuccessful efforts of international cooperation

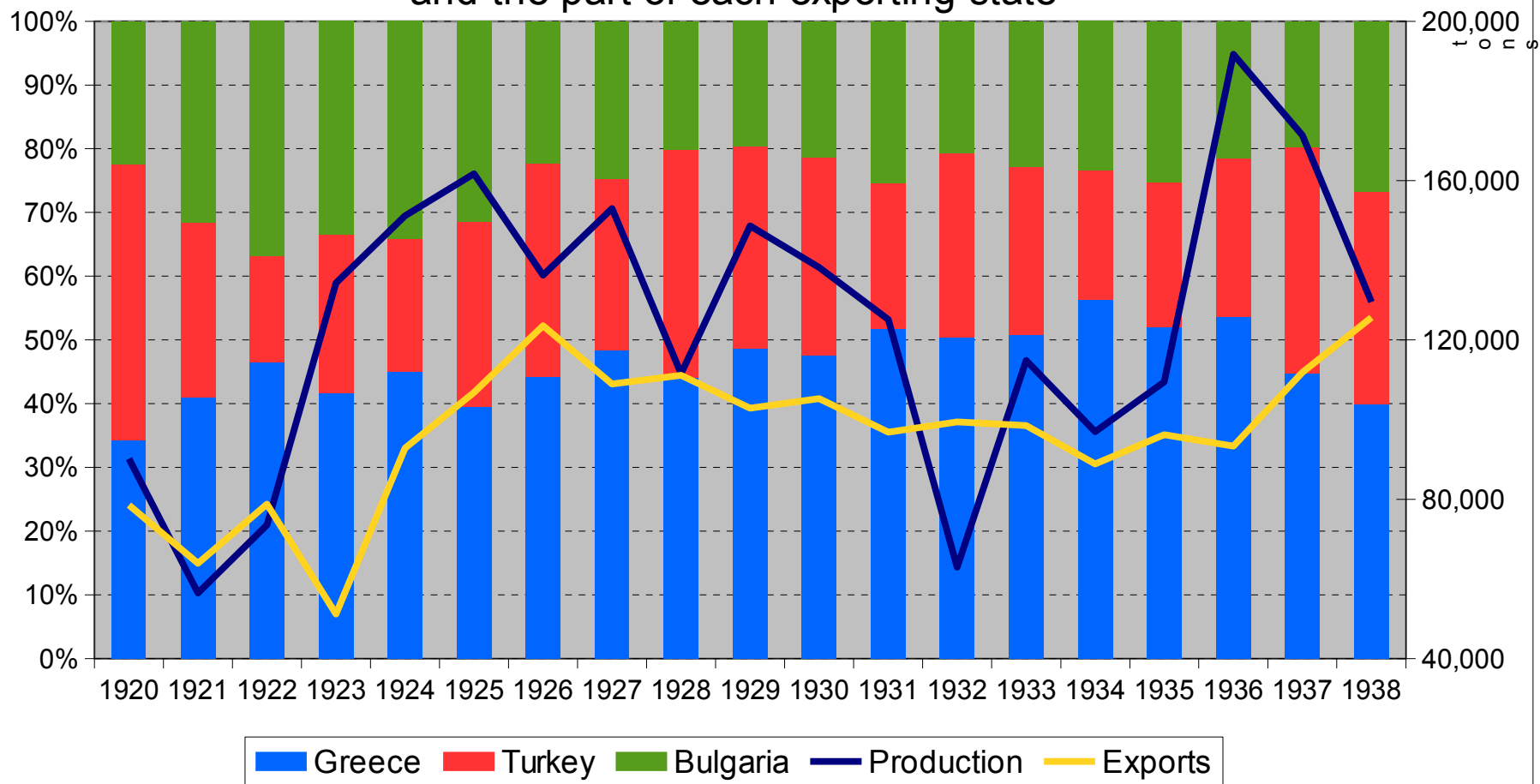
Greece, Turkey and Bulgaria , historical enemies, found themselves engaged in negotiations, under the aegis of the League of Nations (March 1933), in an unsuccessful effort of active cooperation to preserve world prices, thanks to a system of «stock régulateur». The «stock» would reduce price volatility of tobacco and help Balkan sellers negotiate with German buyers.

The three countries have also organized Balkan conferences (May32-Feb'34) to regulate production (copying old *Régie* tricks).The effort failed because of geopolitical competition and each country followed its own course.

In August 1932 Greece had reached a Clearings Agreement with Germany. Bulgaria followed suite.

Production and exports of «Oriental» Tobacco

and the part of each exporting state



Make the workers pay the crisis...

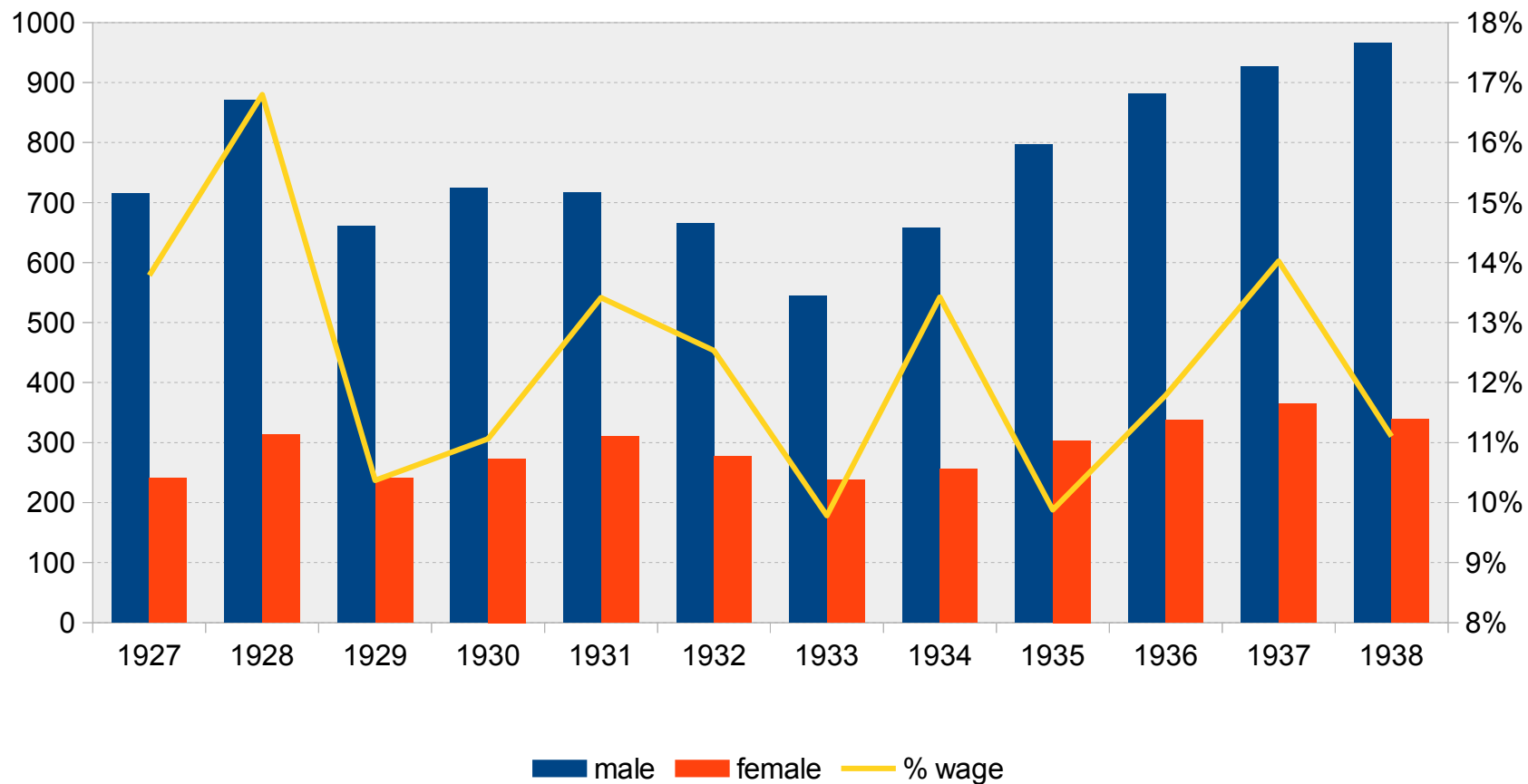
Merchants try to curb down the cost of tobacco through simplifying processing, i.e. adopting methods which used less specialized labor (mostly women).

They also reduced the number and supervising power of highly specialized workers, gaining control in the division of labor in the warehouses and disciplining their labor force.

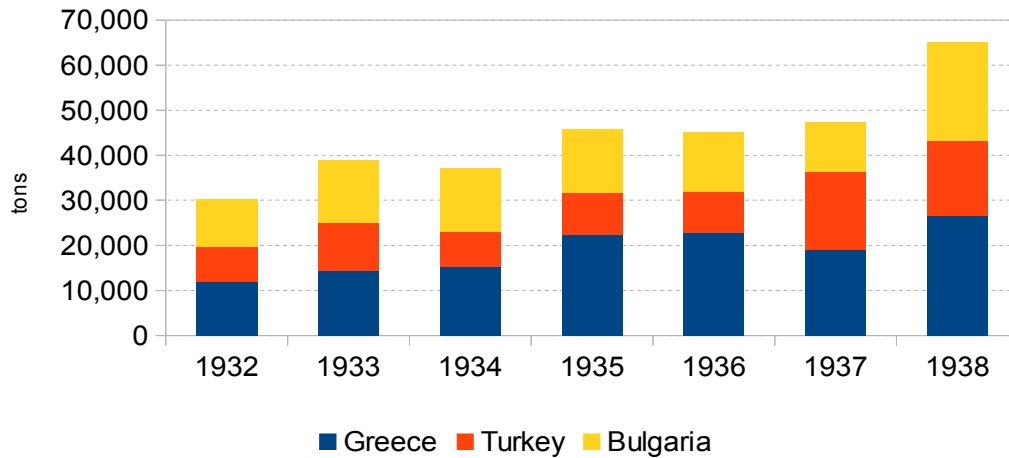
Long term fall in wages, in the percentage of male labor and in the average days of work.

	No of tobacco workers	% male workers	% of wages in final value of exports
1928	40.000	60%	17%
1933	26.000	45%	10%
1937	47.000	40%	14%

The real wage of male and female tobacco workers and the % of wages in total tobacco exports value

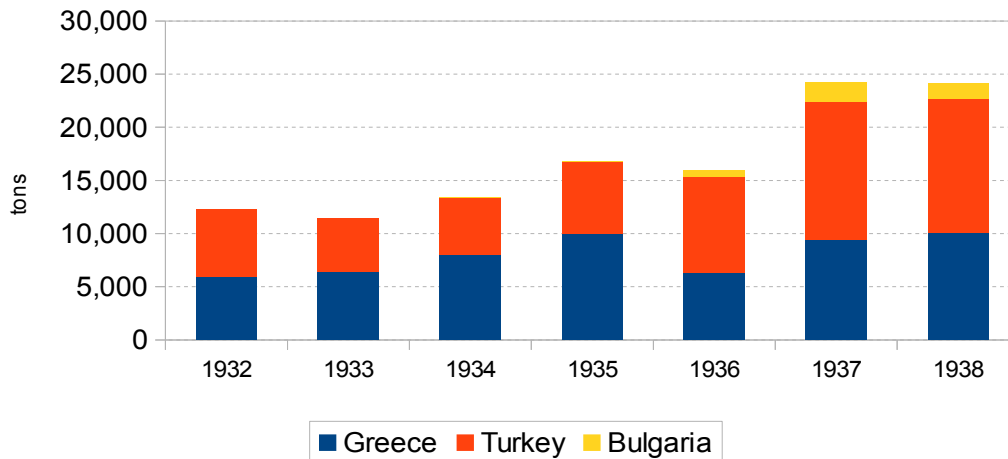


Oriental Tobacco imported in Germany by country of origin



The clearing agreements open the German market again to all oriental tobacco producers.

Oriental tobacco imported in the USA by country of origin



Superior quality Greek and Turkish tobacco was exported to the USA under free market conditions.

Back to (anemic) stability 1934-1939

The Clearing agreements helped oriental producers re-enter the German markets, while the New Deal reprise boosted demand in free trade USA tobacco markets. Nonetheless, stability was anemic and never surpassed the late 1920s level.

German Clearing agreements have obliged Balkan producers to sell their product to Germany that paid with an overpriced *Reichsmark* and forced its partners to buy industrial products at inflated prices or run the risk of future devaluation of their unused clearing surplus (R.Nurkse).

Was there a risk that the overcrowded (South-)Eastern European countryside was transformed into a component part of the German Industrial economy (the alternative being to engage itself in a soviet type state-inspired industrialization) [Warriner] ?

Post war decline of oriental tobacco demand, prices and farmer income.

The war decade (1940-1949) destabilized the Greek economy: the per-capita GDP return to its pre-war level only in 1952. Tobacco never regain its former importance. Markets were lost in USA (Turkish tobacco dominated in 1940-45 and has been an active competitor later), Germany (use of oriental tobacco in cigarette regressed from 97% to 12%) and Eastern Europe (now part of the COMECON).

In 1957 a National Tobacco Organization (EOK) was established to provide credit, extension services and guaranteed prices to producer and regulate the marketed volume. It was a sign of the

The Greek tobacco found its 1928/1937 volume only in 1956, but «Oriental» tobacco had lost its envied position. Cost remain high, yields stagnated while prices fell.

The small-owner quasi-monoculturally tobacco producing agro-pastoral families of Eastern Macedonia and Thrace have lost a large part of their income and in spite the efforts of the EOK never redress their chronic budget deficit.

Tobacco was mostly produced in lowland farms Western Macedonia as part of complex culture mix with growing yields since the mid 1960.

Indigenous cigarette industries expanded.

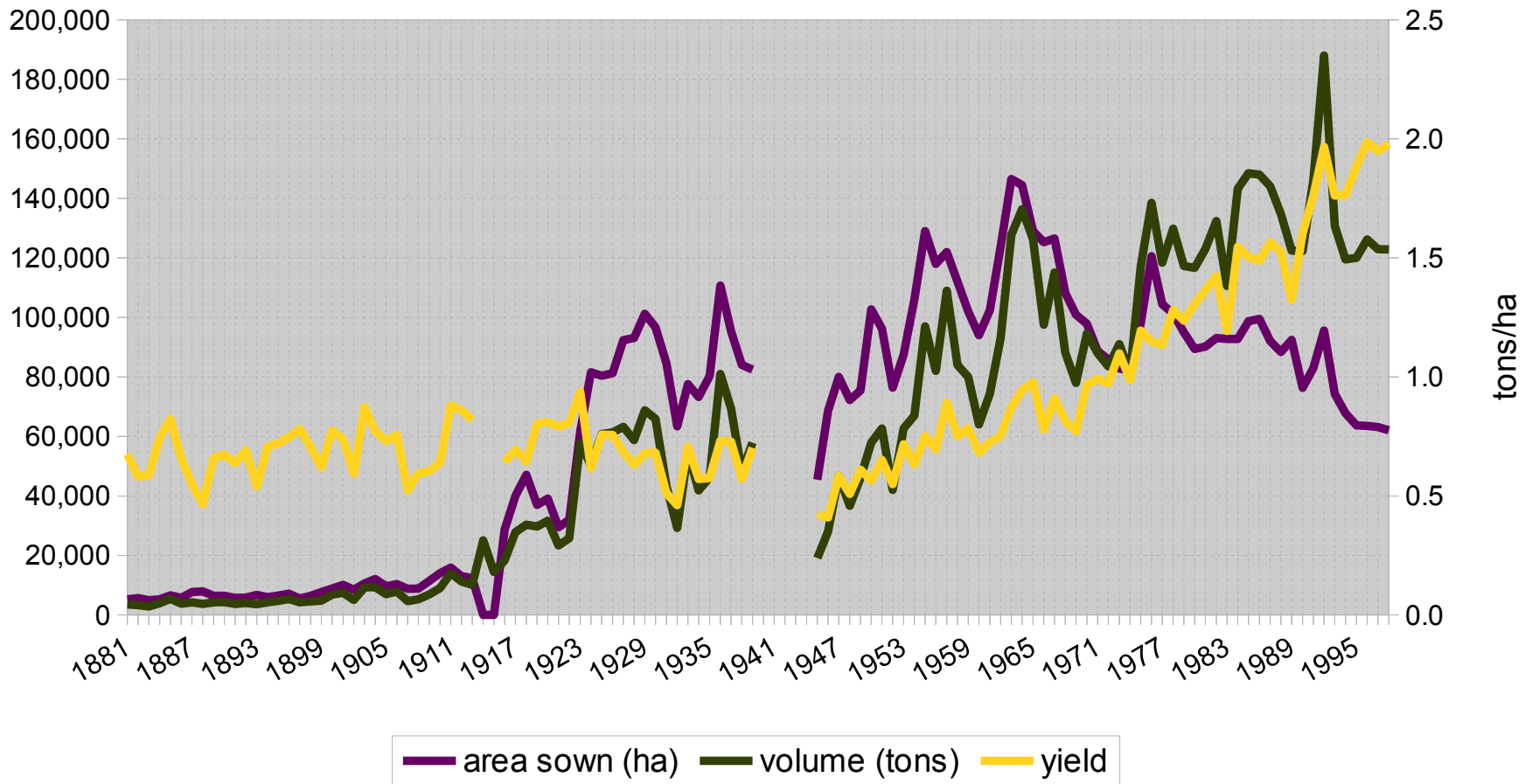
The end of tobacco processing

After the war and the decline of oriental tobacco prices, commercial processing was simplified to the extreme and tobacco workers were left unemployed, while the population of the old urban network of tobacco processing towns in Eastern Macedonia and Thrace stagnated.

All in all the experience of working in tobacco processing lasted less than two generations (ca.1900-1950).

The Tobacco Merchants have lost their strong political influence in the late 1950s. The scions of old tobacco exports houses have reoriented their activities to new financial and industrial sectors.

Area sown with tobacco, production and yield



Emigration and economic growth (1955-75)

The bilateral agreements [and especially the German-Greek agreement on Emigration, 1961] opened the way for the easy evacuation of surplus (underemployed) rural labor towards Western Europe (as it happen everywhere in Southern Europe and Yugoslavia).

In a few years over half a million Greeks (60% villagers) emigrated. The upland tobacco producing areas were particularly concerned.

Once again when labor-intensive products lost their appeal in European markets, raw labor was directly exported.

A part of the rural excess labor will find employment in industries and the service sector of the growing urban centers, without any kind of fallback in agricultural production.

Emigration Rate (p.1000), Greece 1888-1976

