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THE GREEK REGIONAL DEVELOPMENT PROBLEM:
PROSPECTS AND POLICY RECOMMENDATIONS

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1. Introduction

«Every tourist in Greece, however hasty his visit, will know that there is a pressing problem connected with the regional distribution of economic activity. He will visit Athens, a major European city which appears to be prosperous and quite up-to-date in its buildings, services and in the sophistication of its population. On his way to the ancient ruins he will also inevitably see shepherds with their small flocks, poorly dressed peasants standing before their reed huts, the absence of machinery, the grinding poverty. The problem of regional development is to bring about some balance between the living standards of these «two nations» (Ward, p. 1). And professor Ward goes on asking the question «What can be done to change this picture?» And he replies: «Unfortunately, economists can offer no sure cures. The study of regional differentiation has been considered by them mainly in terms of differentiation among countries rather than within a single market area (Ibid., p. 1).

The literature which treats these problems is fairly small and far from unanimous. For example, regional growth disparities are attributed to initial differences in factor endowments (Friedman and Alanson 1954, pp. 224-225) which viewpoint contrues regional growth as the outcome of resource movements generating by earning differentials (Myrdal 1957); to the existence of economic «poles de croissance» (growth poles) (Perroux 1961); and to regional differences in production functions and even differences in the demand for a region's product (Steinmuller, in class, 1975) (Borts 1960, Baldwin 1956). The policy recommendations of economic planners comprise two distinct and mu-
tually exclusive schools of thought, one of which assumes «balance»
growth and the other assuming an inelastic factor supply and favor-
ing concentrated and sequential growth so that scalar and external
economies can be maximized (Chenery 1961, Nourse 1953).

The latter school in particular admits that international and
interregional growth inequalities are a necessary condition for con-
tinuous and sustained economic growth (Hirshman A.D.) so that the
presence of «growth poles» is indicative of the degree of economic
maturity attained by various economic systems (Myrdal, ibid. Myrdal
has essentially expressed a similar view that implicitly accepts the
inevitability, if not desirability, of unbalanced economic growth —
his «backwash» effects). This implies that countries in the early phases
of their economic development tend to exhibit keener regional growth
disparities that may alter unfavorably the scheduling of profitable
public investments and necessitate more infrastructural expenditures.
Regional growth differentials within the more economically advanced
countries are viewed as welfare problems stemming from the immo-
bility of human resources and the autonomous changes in the metro-
politan structure. In either case, there are serious repercussions for
any given resource allocation patterns.

The question of whether regionally inbalanced economic growth
interferes with national developmental objectives is a difficult one
unless it can be said that uneven growth leads to excessive urbaniza-
tion rates which, according to Colin Clark, cannot exceed the 3%,
to the formation of large and uneconomical cities, and to the generation
of unwarranted social costs. A simple yardstick for gauging the inter-
ference of overurbanization and regional imbalance with national econ-
omic development might be the dynamic change in the composition
of the national investment budget.

Available data suggests that economic growth rates diminish
appreciably as the non-productive share (crime prevention, welfare
payments, health expenditures, maintenance costs) of the total in-
vestment increases at the expense of the productive share (industrial
development, land reclamation projects, water resource development
eetc.). Lloyd Rodwin (in C. J. Friedrich and Seymour Harris editors,
p. 148), estimates that approximately 50 to 70 percent of the total
investment budget of an average under-developed country is absorbed
by social overhead cost. Research is needed to test the hypothesis
pointing to the direct relationship between over urbanization and
relatively increasing infrastructural investments.

The choices here (in the Greek case) is not a choice between regional equalization policies (this is unobtainable we believe and may be not economically worth) but one of regional development policies (designed to raise incomes, employment levels, and productivities of lagging regions). Historically such policies have been applied with a full understanding of neither the array of tools available for implementation nor the implications or their use and many paradoxes have emerged as a result.

2. Some aggregate indices of Greek economy

«Economic development» is one of those terms whose meaning everyone knows but which no one can define (Ward, p. 7). Per capita income seems to come closest to measuring what we have in mind, but at times this can be very misleading. For example Venezuela and West Germany rank together in 15th place in the world in this respect in 1955, but this does not reflect the common sense meaning of «equal states of development». Many other indices also give a rough idea as to where a country stands as far as development is concerned (Ginsburg N. 1961, pp. 18-104).

In a table given by the above author some 16 quantitative indices are named. Each of these has some rough bearing of the extend to which a country has developed economically. For example, it is more common for a developed country to have low birth rates and high per capita calorie consumption than for a less developed country. Each of the indices is so arranged that a high ranking suggests higher development; for example, the country with the lowest birth rate is at the top of the first mentioned scale, while the country with the highest per capita calorie consumption heads the list for the second index. In every case, except death rates, more than 90 countries are included in the ranking. The asterisks mark indices for which Greece is at or very near the median. The data is for the mid-nineteen fifties for the most part and some of the indices have changed today rather rapidly.

Greece ranks relatively high on the indicators of public health an welfare. She is well above the median in infant mortality and near the top in the birth rates and death rates. She is well above the median in adult literacy and proportion of young children in elementary school. And again, she is near the top of the list with respect to both proportion
of population in secondary and higher education and physicians and dentists per capita.

This, plus her position above the median in calorie intake per capita, suggests that the Greek population is better prepared, both physically and mentally, than those of most developing countries to meet the heavy demands of modern society. This is quite a different thing from asserting that performance is adequate in these areas. The more developed countries of the world all perform better than Greece in most of these indicators.

2.1. Some aggregate measures of regional inequality

The Greek economy is essentially agricultural in nature with a relatively small and slow-growing industrial sector.

In spite of the massive aid received by Greece under the auspices of the Marshall Plan between 1948 and 1955 (Koutsoumaris G. 1965), the relative shares of the agricultural, industrial, and service sectors of the GNI (gross national income) have been little affected.

For example, although agriculture's share decreased from 34 percent in 1948 to 25 percent in 1955 and may continue at this level the other major sectors—manufacturing and services have remained roughly constant approximately 16 and 46 percent respectively. The remarkable stability of these components of the economy indicates a lack of noticeable movement toward either industrialization or a more intensive use of the country's agricultural resources. There is a lack of «basic» resources for industrial development such as iron ore, coal and cheap electric power to sustain industrialization.

The distribution of economic activities among the various regions is neither equal nor stable. In 1958, for example, Athens accounted for about 45.7 percent of the total number of industrial firms, 53.2 percent of total industrial employment, and 55.7 percent of total industrial output. In 1963 those figures were 50.4 percent, 54.8 percent, and 51.0 percent respectively. Moreover, of the 14 percent national increase in manufacturing employment between 1958 and 1963, Athens accounted for approximately 85 percent.

This disproportionate share claimed by Athens is pervasive throughout the Greek economy. In 1962, for example, Athens, with roughly 23 percent of the total population, accounted for approximately 41 percent of the National Domestic Product, while its share in other activities was the following: Public Utilities 74%, Transport-
Communications 47%, Trade 58%, Credit Insurance, etc. 77%, Public Administration 51%, Health 53%, Other Services 51%.

The regional distribution of per capita incomes and per capita gross product, perhaps the most revealing indices of regional inequality, also indicates the preponderance of the Athens region*.

Another table taken from the Ministry of Coordination is referred to the composition and distribution of Gross Product by the Economic Sector and region (1961-62 in percentages and shows the regional employment structure by economic sector. It is evident that, outside the Greater Athens Region (GAR), agriculture occupies the largest part of all the regions labor forces. This is consistent with the absence of any massive resource concentrations that would allow some regions to specialize in non-agricultural activities. Also shown in this table is the sectoral make-up of regional gross products, which is a skewed as sectoral employment. Overlaying the regional employment data onto the sectoral distribution of regional gross products one can note that relatively more labor is devoted to agriculture than is justified on the basis of agriculture's contribution to the gross product. This contrast by no means constitute a yard stick for measuring relative labor efficiency by sector and regions; it also tends to lead to the false conclusion, in the absence of data on marginal labor productivities, that in the long run, migration of agricultural workers to Athens, as well as mobility of labor from agricultural to industry or services, raises per capita incomes. We will argue that perhaps the reverse is more likely to be the case. The distribution of regional infrastructural capital in Greece is equally opsed. Although it is extremely difficult to inventory social capital a crude and probably an indicative picture can be drawn. Health facilities, including physicians, are overwhelmingly concentrated in the GAR, with no other region even approaching the national average. Education facilities exhibit a similar pattern.

* This indicator is probably the more representative of the productive capacities of the regions since income differences are not adjusted for variations in the regional price structures. For example a comparison of incomes between say Thrace and Athens should yield somewhat smaller differences for the higher prices prevailing in this region.

This is shown in table 4, in the following two sources:
1. Ministry of Coordination, Regional Development Service.
For example, in 1961 the GAR (Greater Athens Region) had about 15 percent of the country's schoolage population while in the same year it contained some 33 percent of the country's high school students; this can possibly be explained by the fact that migrants receive their primary education in their villages before migrating to Athens, so that the metropolitan demand for primary education is relatively small. Also in 1961, 51 percent of all private elementary schools were located in Athens; this represented 46 percent of the total number of schools. Vocationally training facilities are also heavily concentrated in Athens. In 1961, about 50 percent of all vocational schools and 53 percent of all vocational students were located in the GAR. The installment and consumption of electric power are additional indices of considerable importance: In 1961 the GAR consumed 65 percent of the country's total power and 62 percent of its total industrial power. Domestic power consumption at the same time was 2,900 kilowatts per 10,000 population — 3.7 times the national average with, again, no other region approaching the national average.

The intensity of the Greek regional problem is clearly reflected in the relative population of the Greater Athens Region vis-à-vis the rest of the country. During the decade 1951-61 total population increased from 7,630,000 to 8,380,000 — an increase of 9.8 percent while the GAR's population increased from 1,378,000 to 1,852,000 an increase of 34.4 percent. More than 70 percent of the GAR's net population again consisted of migration from other nine regions of the country. This is shown in the Statistical Yearbook of Greece, 1961, pp. 15-19, 20-21.

Moreover, the GAR accounted for 68 percent of Greece's total urban population increase during the same decade, while Thessaloniki (Salonica), the second large city, accounted for only 12 percent. Thessaloniki also established itself as a major and important city during 1951-61 decade. The enlargement and modernization of its university, the improvement of social services, the irrigation works in the Salonic plain and the planned and government supported creation of the industrial zone with a large oil refinery unit outside Salonica made the population increase for the city itself move from 6.8 percent during 1940-51, to 27.4 percent during 1951-61, an increase which in all probability is to continue (Papageorgiou C. 1971, p. 12).

The GAR is the only collector of domestic migrants, adding to its population for the period 1960-65 more people through migration
than the total natural population growth of Greece. The causes of this net inflow to Athens seem almost too obvious. Athens is considered to be the place where there is enough activity to absorb the new comers if they can receive some assistance at the beginning. It is the place of the central government, of the main offices of big firms, of a large university, etc., etc., only the echo of which can reach the provinces through press and radio. It is seen as the place from which once settled only a few return; and that is enough for the potential migrant to prove that the quality of life is better in Athens. The maritime regions plus Thrace, Epirus and Peloponnesos have registered substantial population losses; of these, Thrace and the Aegian Islands are the only ones losing more population in foreign migration than to the GAR. The comparison of net migration per annum with the annual natural population increase for each individual region shows that six regions, constituting roughly 40 percent of the country’s population, are actually being populated. Peloponnesos and the maritime regions in particular have had several population losses dating from 1956.

For rural migration the main motivation has been found to be the difference between employment opportunities between rural areas and the place of destination. In second place comes the expectation for higher income (for 13 percent of migrants this was the main pull factor) although this expectation appears higher in potential migrants (21 percent) (Papageorgiou 1971). The allocation of state investment funds is probably an effective means of levelling off regional disparities as Greece is consciously pursuing a policy of decentralization.

We distinguish two types of public investment: Productive and social or infrastructure investment. From an immediate economic point of view the undertaking of productive investments is less useful for regional equalization objectives than is that of infrastructural investment, because the feasibility of productive investments is defined in terms that are irrelevant to the degree and magnitude of regional disparities. It is frequently the case that more developed regions offer more investment opportunities and higher benefit-cost ratios per dollar than do less developed regions. Rahman (in Friedmans and Alonson eds., p. 655) finds that it would pay, under certain conditions, to concentrate investment in less developed regions, that have a higher rate of saving that other regions. He states that «in the presence of differential regional rates of saving, the rate of growth of total national income is not necessarily maximized by concentrating investment
in the more productive region throughout the planning period. In contrast, the provision of infrastructural capital is well-suited to the pursuit of regional development objectives, since it is not subject to hard economic calculations. In those countries where urbanization rates exceed growth rates, the large urban agglomerations absorb most of the funds earmarked for the provision of infrastructure, thus reducing the planning authority’s capacity to embark upon an effective policy of regional equalization. This by itself has become a powerful argument for urban decentralization.

Data given by the Ministry of Coordination [«The Regional Distribution of Investment in the Past» (in Greek), Athens, 1968] shows the percentage distribution of regional investment in Greece by category and as percentage of the total state allocation for a given category. The dollars involved for the 11—year period shown are about $1.33 billion although the entire State Investment Budget was about $1.85 billion for the same period — about $0.5 billion cannot be regionally disaggregated. The table shows that the GAR’s share of the State Investment Budget, although combined with that of the Rest of Central Greece RGC region is the second largest and not as much larger as one would expect than that of the Peloponnnesos.

The «social» investments, such as health and education, seem to be larger for GAR-RCG but are essentially small with respect to this region’s total budget. This is so because the budgets of the other regions are mostly absorbed by agricultural manufacturing and transport activities, so that GAR’s budget devoted to infrastructure is not higher than those of the other regions and, if adjustments are made to take into account different population sizes, it may be estimated that the GAR may roughly be the third or fourth highest per capita investments for infrastructural purposes.

3. The Administration of Regional Planning

In developing a backward region it is easy to ignore local interest especially in the areas outside agriculture. There are no entrepreneurs of a type suitable for the undertaking of modern enterprise. An additional problem is generally the lack of interest of owners of venture capital in the more developed regions of the country. Not knowing the under-developed region and unsure of its prospects they are unlikely to step in, especially in a developing country in which there are
many more profitable opportunities elsewhere. The government cannot avoid some assumption of the entrepreneurial function, and the temptation exists to assume it wholly. For a backward region the defences against this assumption of central government power are more limited than elsewhere. However, there are a variety of devices which can mitigate the more harmful effects. One of these is the establishment of planning councils of local interest groups. These councils would not be merely advisory groups, but would actually participate in the formulation of the regional plan. At first, the function of such groups would necessarily be more a matter of education than anything else. However, by coming to understand, in an integrated context, the problems of the region and the availability of means to solve them, the more active members of the community would quickly learn where the opportunities were. With some guidance, partly from the planning authority, partly from the development finance agencies, these councils could well provide the nucleus of local entrepreneurial talent for the next round of development (A Commission Report, ch. 7).

The development of interest of the locals is one aspect of the problem. The association of the planners themselves with the development of the area is quite a different problem. The regional planning agency must perform work as a section of hierarchy, or a bureaucracy. The difficulty here, in countries like Greece, is to assign authority and responsibility in such a way that the success of the program becomes tied up with the success of the individual participants. If this problem could be successfully solved it is our view that most of the arguments for the free enterprise would disappear.

The question which we address to ourselves now is: How the authority of these original bodies be enhanced?

a. One way is to establish genuine search activity in the regional body.

b. A second way is to give them some budgetary independence.

c. Still a third way for local initiative is in the control of current operations.

As far as the first way is concerned we observe that Greece in all her prefectures has got almost all the necessary personnel capable of constructing projects. The establishment of these local planning units would give them tremendous scope to face local problems and to work with enthusiasm to solve them. The advantages of regional initiative
does not stop with the development of interest however. There are interdependent activities, conflicts, externalities and so forth. Industrial complex analysis, as developed by Isard (W. Isard, 1959) poses this general problem of realizing regional external economies (and avoid diseconomies) and offers at least one approach to the isolation and evaluation of such activities. The result may well be not only more efficient growth in the region itself, but also a substantial improvement in the national program.

Referring to the second way we observe that in large-scale projects which would absorb a significant fraction of available national investment resources must be approved finally by the central governmental planning council after an evaluation of the alternative projects requires a great deal of knowledge of local conditions. Information of this kind exists at the regional planning board and it seems wasteful to duplicate it at the center.

Another question which we would like to address to ourselves is: Do current regional planning practices in Greece indicate any recognition of the role of local initiative? We are afraid that our answer would be negative. There are no formal local councils, of which we are aware of, nor any local development of investment projects in Greece. In keeping with Greek administrative practice, technical staff assigned to the provinces remains under the control of the ministry which employs them, so that a difficult dual authority, both regional and functional, over them exists. After this exposition the reader quite obviously should ask. Why is it so? The answer given by Andreas Papandreou on p. 22 is: Relatively stationary economies are also, generally speaking, very low per capita income economies. In such societies, the vested interests of the ruling coalition, of the establishment, becomes identified with the status quo. Stationariness is a condition for maintaining the structure of power — while the prevailing structure of power is itself an obstacle to growth. The same kind of argument is also shared by Myrdal throughout his work «Asia Drama» (1968) and «Economic Theory» (1967).

Another important question which we would like to raise is: Are there «appropriate regions» to be chosen for development so that the overall economic development of Greece will not be distorted seriously? The answer here is, yes. And such a region is Macedonia. Why then hasn’t Macedonia been chosen by the state? The answer relies again on politics and invested interests. To what extend is the
commitment of resources to regional development based on a careful
c consideration of the alternative regions and the exploration of their
development possibilities. Our argument for choosing Macedonia among
the first regions to be developed is as follows:

1. We have seen so far that the greatest economic activity has been
concentrated heavily in Athens, and it is economically advisable
to develop another area as a second «pole de croissance».

2. Salonica, the second largest city with 557,360 population in 1971,
is already a city (and a port simultaneously with great potential
development) with its own transit system, developed utilities and
the like. Provided these are opportunities for industrial development
in the Salonica area, the social overhead burden is relatively small.

3. Salonica is a growing area, with substantial immigration over recent
Stepping up this process then could assist redistribution of the
population, since Salonica would be able to absorb part of the popula-
tion now migrating to Athens.

4. At the present time Salonica is booming. Its growth, evidenced
most clearly in the volume of residential construction, is due lar-
gely to rising agricultural incomes in the surrounding areas. This
creates a favourable demand factor to consumption oriented indus-
try should it be willing to locate in the area.

5. A large portion of migrating people invest their savings in business
located in Salonica or try to buy appartments and/or to set up
their own business when they return back to their home country.

6. The existed university can produce the necessary number of gradu-
ates to staff all these economic units. Apparently the university
itself is a place of employment.

7. The «social life» is at an «acceptable» level. Salonica has four per-
manent theaters (stages), a great variety of social clubs with im-
portant activities, four large hospitals which at the same time are
research centers directed by the university staff, it has its own TV
channel and so forth.

8. The existence of a ministry in Salonica, the Ministry of Northern
Greece, could help a great deal in assuming functions of regional
development.

9. Despite these prospects, Salonica is presently losing industry to
Athens. Even in the cotton textile industry, which internationally is tending to locate in or near the cotton growing areas, there has been a sharp decline in the employment of textile workers in the Salonica area.

4. Regional Development Policy Recommendations

It is our belief that if Greece is willing to join the European Common Market as a full member (now it is an associate member) without violent disruptions, it will require that all possible measures for long run increases in economic efficiency be carefully considered. It appears that an important opportunity is being neglected in the regional development program.

a. Organization Measures

In this connection it is very important to put in order of priority the organizational and institutional measures required for correct planning and for effective coordination of the execution of the plans at the central and regional level. These measures concern reorganization of the administration at all levels, and establishment of new institutions for planning and implementing development policy on the national, regional and local level.

1. Definitive delineation of «planning regions», and adjustment of the jurisdiction of the various regional services of Ministries and other public entities to the boundaries of these regions. An appropriate regional administration and hierarchy will thus be established, with decentralized and clear-cut responsibilities and jurisdiction on administrative and economic policy matters, and with independence vis-a-vis central and local government authorities. To this end, the Directorate of Public Administration will cooperate with other competent departments in studying and recommending the necessary forms, at all levels of administration, for the successful fulfilment of the purposes of regional development. The Directorate should also organize in a «suitable» planning region, our experimental scheme of regional administration. The conclusions to be drawn from this experiment will provide the information necessary to finalize the preliminary measures for organizing regional administration.
2. Reorganization of the existing Regional Development Service in each of the planning region to be finally decided, and organization of effective coordination between the central planning authorities and regional administration. These services will be staffed with qualified personnel, and will be entrusted with the task of organizing and carrying out research concerning the productive resources, problems and potentialities of their region, assisting in the preparation of long-term and five-year plans as well as annual public investment programs, coordinating the carrying out of projects and in general promoting program implementation.

3. Expansion of the role and jurisdiction of the newly-founded Regional Development Council, with the purpose of coordinating the activities of the various services and organizations in each plan region. It should also be planned to revise the system of finance of local administration, and to set up new institutions to promote effective collaboration between the public and private sector, as for instance the organization of production and marketing of goods in a multi-Prefecture level, the renewal and/or development areas, the financing the projects, the evaluation of projects, in setting up investment priorities etc.

4. The use of sound planning procedures within the above organizational framework is of prime importance to the success of this regional development policy, which is pre-eminently practical as it refers to specific projects for a specific area and a specific population. Consequently, the measures for promoting the development of each region will be primarily based on direct study and knowledge of its problems and potentialities. It is moreover recognized that a systematic investigation of one problem (economic, social, cultural, structural) and development potential of each region, on the part of respective regional development services and a regional development council, is an absolute prerequisite for preparing a fully integrated and national development plan.

5. The operation of a unified and mutually complementary system of national and regional planning, is therefore, of profound importance to both national and regional development policies. The availability of a minimum of information concerning each region is absolutely indispensable for laying down a sound national policy of regional development, and for taking special measures in favor of individual regions. Along with the prompt and appropriate staff-
ing of regional development services and other organizations in each region, it is planned to promote the collection of information by making use of existing planning works and studies, and assigning new ones on a priority basis.

b. Regional Economic and Social Infrastructure

1. Carefully selected industrial areas and zones will be provided with transport and communication facilities, electric power, water supply and sewage systems, technical schools and worker's housing. Encouragement will also be given to the establishment of banking and financial institutions and other specialized services which, together with decentralized administrative services, will meet the needs of provincial industries adequately and on the spot.

2. Regional transport and communications facilities will be improved by,
   a) linking isolated regions and areas
   b) connecting the industrial areas with the national transport network and consumer centers
   c) connecting the agricultural production areas with major markets and ports and
   d) establishing direct air links between the principal regional centers and foreign countries.

3. The educational system will be improved, especially by means of,
   a) farmers' training schemes to meet requirements of modern agricultural and reorient surplus manpower towards non-agricultural occupations
   b) vocational and technical training programmes, particularly in the industrial areas and
   c) scientific and professional training or retraining schemes at university or equivalent level, to be carried out by higher educational institutions in the regions.

4. Regional urban centers and small towns will be provided with the necessary social services such as medical care and hospital, proper housing conditions, social and cultural activities, and other facilities, which are indispensable if it is intended to discourage the outflow and attract an inflow of population, businessmen and managerial personnel into the various regions.
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