On the efficiency of public investment allocations in Greece

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After long procrastination and endless negotiations, it seems now that the reform/austerity package requested by the troika will go through and that the latest loan instalment for Greece will be released. Disappointingly, the new package contains very little, if anything, on the demand side – and on public investment in particular – continuing on the motif of fiscal consolidation (spending cuts and tax hikes) and supply-side stimuli (deregulation and internal devaluation).

Nonetheless, the new (prospective) agreement is expected to open up the door also for a demand-side boost, if only indirectly, as it (is hoped that it) will allow the unblocking of public and private, domestic and foreign, investment funds currently sitting in the Greek banks, in international investment portfolios and in the coffers of the National Strategic Reference Framework of Greece (funded under EU's Cohesion Policy). With the (slither of a) prospect that attention will at last shift to the "development question", it is perhaps about time to start asking the difficult questions about development policy: what, where and how.

This is of course a huge topic – and a multifaceted one. It concerns the type of actions and incentives provided by the government, the sectoral and spatial distribution of funds, the extent of private sector involvement (another type of PSI…), the balance between short- and long-term interventions and between human-capital and physical-capital or infrastructure provision, and so forth. Although most of these issues cannot be discussed in isolation (not to mention, over a blog), it is important to start from somewhere. A useful way, I think, is to start by asking how public investments are allocated across space: what are the underlying allocation criteria that can be discerned from examining the allocation patterns of past public investments in the country.

As it happens, I have recently examined this issue, together with a good colleague and past HO Fellow, Dr Yannis Psycharis, in a paper that was published last month in the journal European Urban and Regional Studies. The paper reviews the allocation criteria proposed in the literature (horizontal equity, spatial redistribution, economic efficiency, geographical synergy, spatio-functional targeting) and examines empirically how the allocation of public investment in Greece over the past 35 years has reflected (any of) these criteria. Disappointingly – but not entirely surprisingly – what we find is a general "lack of discernible purpose and strategy".

Our analysis uses a unique dataset of public investment in Greece and groups expenditures into six categories (productive, social, transport, urban, local and miscellaneous) and six political-economic sub-periods (from the restoration of democracy to the period after the 2004 Olympics). As a starting point, we look at the global patterns of public investment allocations, examining specifically their composition, their temporal persistence and their functional complementarity (cross-category substitutability). Despite significant changes in policy and politics during the period, we find no evidence of structural breaks (sudden changes in allocation patterns). Rather, allocations are characterised by continuity, suggesting policy inertia or path-dependence. Throughout this period, and for any sub-period, there is also very little evidence of either complementarity or substitutability of investments across functional categories (e.g., productive investments versus social infrastructure). Regions that receive a lot of one type of investment do not also receive disproportionately more in other types of investment (that would be consistent with a form of synergy-exploitation or regional targeting). And regions that receive too little of one type of investment are not 'compensated' by increased allocations in other types of investment (a form of spatial diffusion or functional targeting).

The main interest, of course, is with how public investment allocations relate to the three main allocation criteria of equity (the same for everybody), efficiency (distribution according to 'best use') and redistribution (allocation according to need). [We explain in detail in the paper how these criteria are defined and measured.] What we find is again disappointing. Horizontal equity is not achieved, as allocations exhibit a high degree of spatial concentration, persistently over time (with the exception of devolved expenditures – i.e., those that are managed by Local Authorities – which appear more equally distributed across space). More crucially, the allocations are not in the slightest redistributive (i.e., targeting less developed regions), neither contemporaneously nor over longer periods of time (e.g., during the socialist governments of A. Papandreou) and neither in general nor for any specific investment category (e.g., for social investments). Further, allocations do not follow efficiency considerations either. They are not higher in regions where public capital appears more productive; they are not concentrated in specific areas/clusters, either at the prefectural or at the regional level (and for both total and category-level expenditures); and their distribution across categories does not seem to aim at exploiting functional complementarities (synergy criterion). All in all, the regional allocation of public investment in Greece appears to be characterised by a high degree of inertia and a notable absence of a traceable strategy.

Of course, this does not mean that the allocation of public investments in the country has been random. Although, on the basis of our findings, one is driven to conclude that the role of macro-policy principles for the allocation of public investments has been at best minor, other factors and micro-drivers must most certainly have played a role – including for example micro-political preferences and strategies. But, the issue of the actual determinants aside, the fact of the matter is that in the 33 years since the restoration of democracy and until the present crisis, public investments in Greece have functioned essentially as a resource-dispersal mechanism, which tried perhaps to satisfy too many different demands and too many criteria, ending up averaging everything out and thus following none of the criteria that it may have wanted to pursue.

What does this mean for the role of public investment in the country? And where does all this leave us – and public policy in particular – today? Given the current critical juncture that the crisis represents, continuing on the historical modus operandi is not only unadvisable but also unsustainable. As resources for public investment are becoming increasingly limited, increasingly dependent on external financing (which comes with its own strings and conditionalities) and increasingly critical for the country's return to growth, it appears warranted that public policy rethinks and redefines the strategy and criteria under which it allocates resources across and within its regional economies. Although it is not for us – or, not on the basis of this analysis – to say whether these criteria should favour the concentration of resources to particular areas or their more equitable dispersal across space, one thing is clear: whenever public investment resumes in the country, this needs to be done under a complete redesigning of the allocation mechanisms and a clear definition of the policy priorities that these allocations are meant to serve.

*Note: The full paper can be cited as Monastiriotis V. and Psychairs Y. (2012), Between equity, efficiency and redistribution: An analysis of revealed allocation criteria of regional paublic investment in Greece, European Urban and Regional Studies (DOI: 10.1177/0969776412455990).