CENTRALIZATION AND DECENTRALIZATION TRENDS: THE EVIDENCE FOR GREECE AND THE EEC

By

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INTRODUCTION

Decentralization in gonvernment authority allows for a more direct participation of the local population in cultural, economic and political decision making. People in cities, towns and villages are much more interested in solving their own regional problems than is a remote and impersonal central bureaucracy. The greater the decentralization of the public sector, therefore, the fuller the participation of citizenry in the process of decision making and the greater the efficiency in solving regional and local problems. However, in order for the local authorities to be able to perform such functions effectively, they need the required financial resources.

Certains functions now performed by the central government could easily be delegated to local authorities. This would facilitate decentralization reduce central government bureaucracy and provide a source of revenue for the local authorities. A recent authorization of the municipalities and communities in the countryside to issue housing permits, for example, seems to be an appropriate step in the right direction. The permit - fees will now go where they belong; i. e. to the local authorities and not the central government.

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By the same token, great centralization in government authority involves, among other things, greater inefficiency and waste of valuable resources. The slow - moving central government bureaucracy is usually unable to conceive and implement efficientey projects of local importance. Most of the times, the dead - head of the central government acts as a drawback to the developmental efforts of those immediately involved at the local level. More often than not, the central bureaucrats fail to see and understand the real needs of specific regions and communities. This explains, to a great extent, their propensity to embark on highly wasteful «prestigeous projects» which have little to do with the real needs and aspirations of the people. It seems, therefore, that inefficiency goes hand in hand with government centralization. Moreover, centralization leads to the suffocation of individual and collective initiative at tne regional and local levels and encourages corruption at high levels of gonvernment.

The purpose of this paper is threefold : First, it compares the size of central and local governments in Greece and the four largest countries of the EEC. Second, it reveals the trends in these forms of government during the post-war years. Finally, it attempts to point out the implications of those trends. Expenditures of different levels of government are used for this purpose.

THE EVIDENCE

Despite growing criticism against central government expansion, Greece seems to continue to follow the path of greater centralization. The tendency becomes evident when one looks at the relative magnitudes of central versus state and local gonvernment expenditures. While central government expenditures, as a proportion of general government expenditures, increased significanrtly during the post-war period, those of the local government declined at a steady rate. Moreover, the gap in the relative size of these two forms of Government tended to widen during the last two decades.

As Figure 1 shows, central government expenditures increased from 62 percent of total public expenditures in 1960, to almost 70 percent in 1978. In the year 1976 alone, central government expenditures accounted for 73 percent of total public expenditures, an increase of 18 percent between 1960 and 1976.

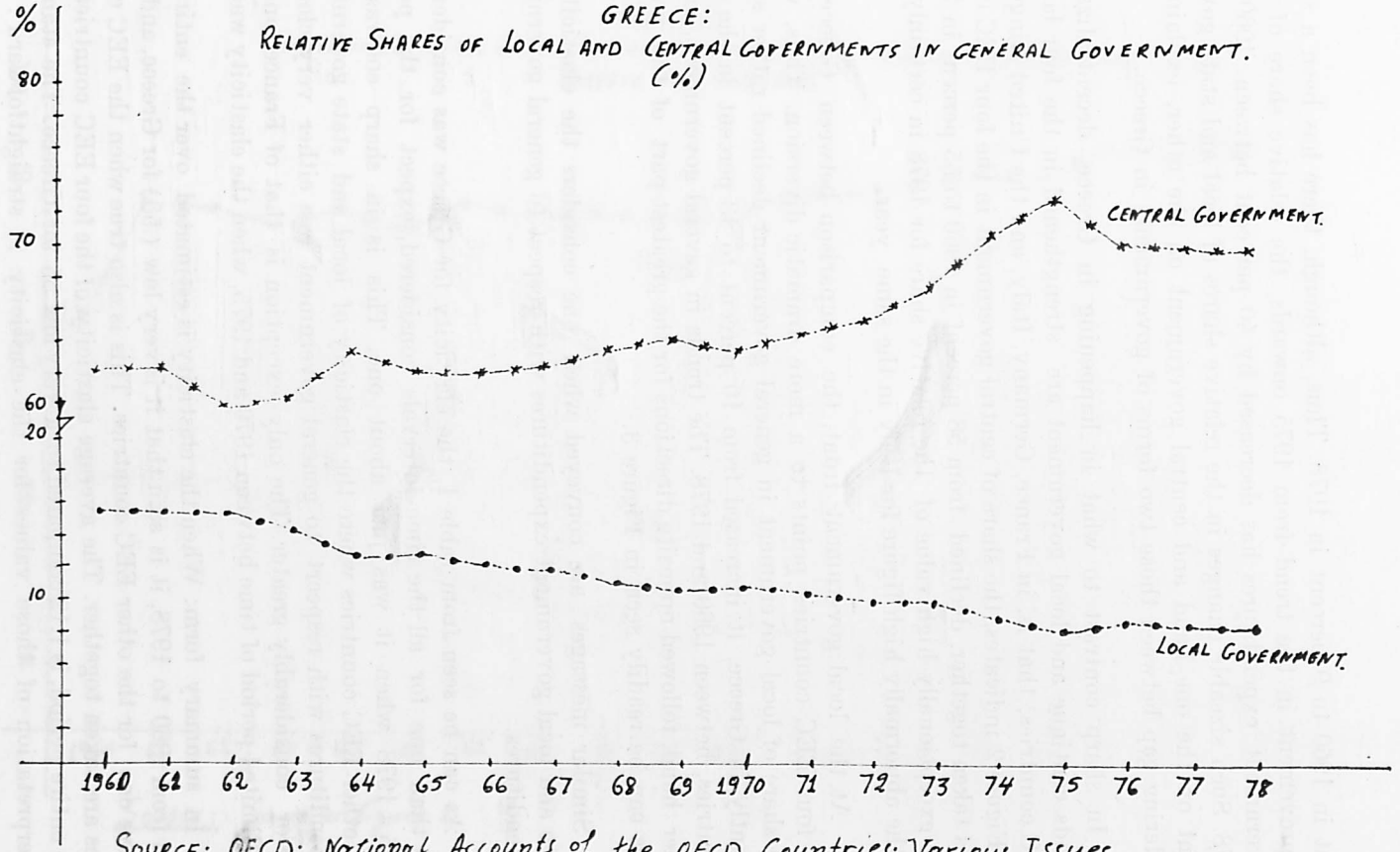
On the other hand, as can be seen in Figure 1, the share of state and local government expenditures in general government declined from 16 per-

FIGURE 1.

GREECE:

RELATIVE SHARES OF LOCAL AND CENTRAL GOVERNMENTS IN GENERAL GOVERNMENT.

(%)



SOURCE: OECD; National Accounts of the OECD Countries; Various Issues.

cent in 1960 to 9 percent in 1978. Thus, although, there has been a slight improvement in the trend from 1975 onwards, the relative share of local government expenditures has decreased by 40 per cent between 1960 and 1978. Such sizeable changes in the relative shares of local and state government on the one hand and central government on the other, explain the widering gap between those two forms of government in Greece.

In sharp contrast to what in happening in Greece, decentralization trends continue and local government are strengthened in the four largest EEC countries, that is, in France, Germany, Italy, and the United Kingdom. As Figure 2 indicates, the share of central government in the four EEC countries taken together, declined from 58 percent in 1960 to 55 percent in 1977. The exceptionally high value of the relative share for 1978 in certainly due to the abnormally high figure for Italy in the same year.

At the local government front, the comparison between Greece and the four EEC countries points to a more dramatic diversion. Thus, while the share of local government in general government declined rather significantly in Greece, it increased from 10 percent to 13 percent in the EEC countries, between 1960 and 1978. The trends in geveral government, on the other hand, followed opposite directions for the greatest part of the period. This can be readily seen in Figure 3.

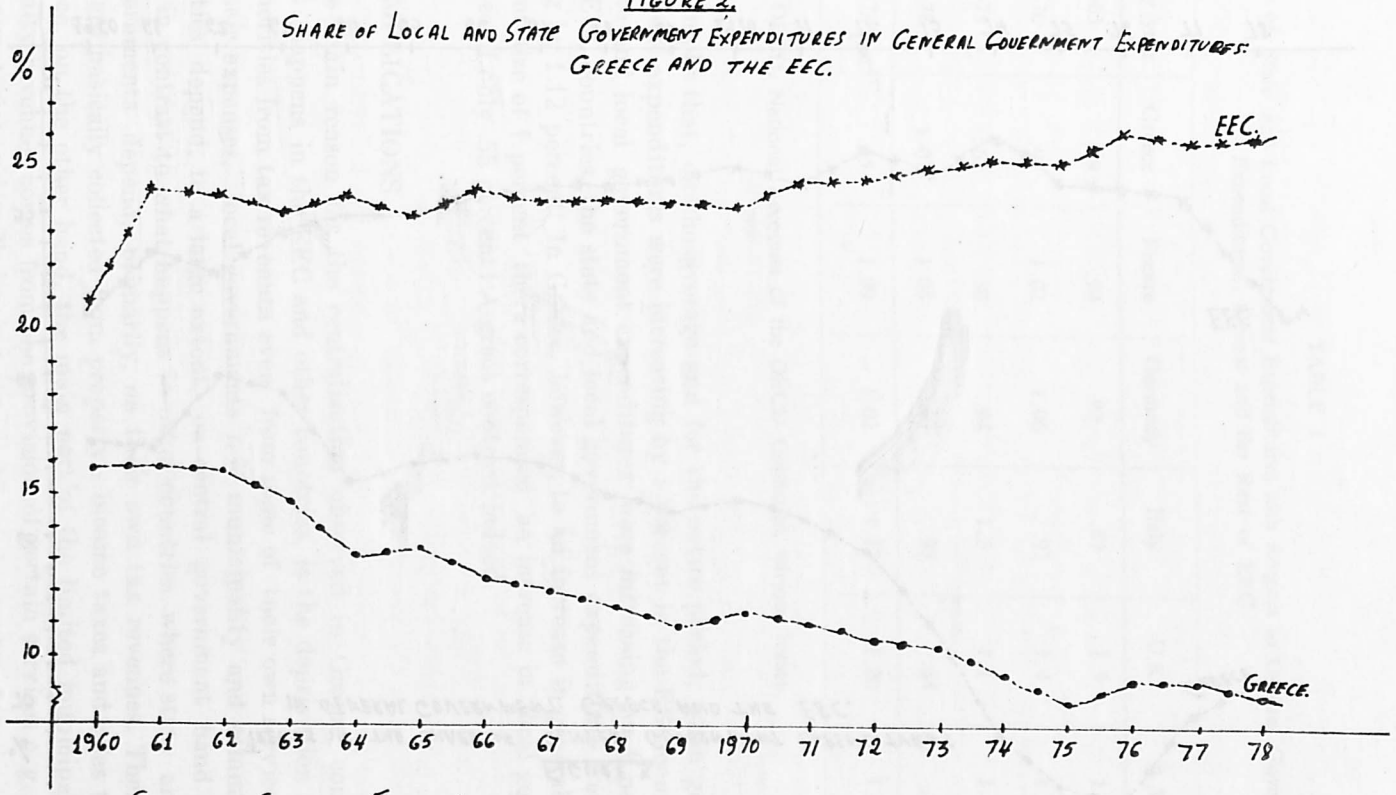
Similar messages are conveyed when one considers the elasticity of state and local government expenditures with respect to general government expenditures.

As can be seen from table 1, the elasticity for Greece was considerably less than one for all the time intervals considered, expect for the period 1975 - 1978 when it was just about one. This is in sharp contrast to the other EEC countries where the elasticity of local and state government expenditures with respecrt to general government was either very close to one or considerably greater. The only exception is that of France, and for the limited period of time between 1970 and 1975, when the elasticity was .50.

In summary form: When the elasticity is estimated over the entire period from 1960 to 1978, it is seen that it is very low (.55) for Greece, and well above one for the other EEC countries. This is also true when the EEC countries are taken together. The average elasticity of the four EEC countries, for the entire period, is 1.12 compared to a very low 55 for Greece. The standard interpretation of those values for the elasticity is straightforward : The

FIGURE 2.

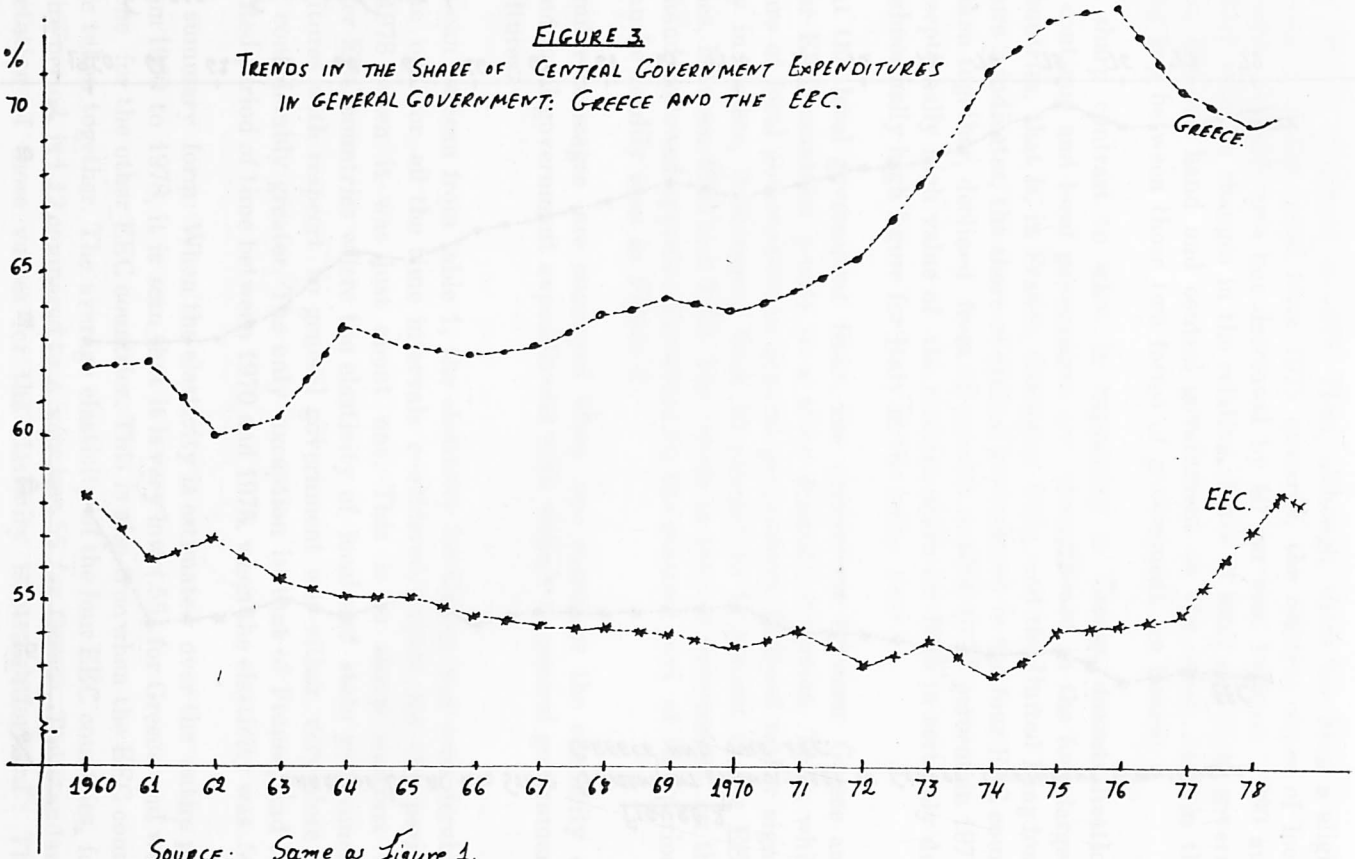
SHARE OF LOCAL AND STATE GOVERNMENT EXPENDITURES IN GENERAL GOVERNMENT EXPENDITURES: GREECE AND THE EEC.



SOURCE: Same as figure 1.

FIGURE 3.

TRENDS IN THE SHARE OF CENTRAL GOVERNMENT EXPENDITURES IN GENERAL GOVERNMENT: GREECE AND THE EEC.



SOURCE: Same as Figure 1.

TABLE 1

Elasticity of State and Local Government Expenditures with Respect to General Government Expenditures: Greece and the Rest of EEC.

Country /year	Greece	France	Germany	Italy	U.K.	A/EEC
1960-65	.49	.94	.98	.87	1.5	1.1
1965-70	.97	1.02	1.06	.93	1.4	1.1
1970-75	.62	.50	.94	1.5	1.1	1.0
1975-78	1.07	1.08	.99	.95	.68	.92
1960-78	.55	1.09	1.02	1.17	1.20	1.12

Source : OECD, National Accounts of the OECD Countries, various issues.

figures imply that, on the average and for the entire period, when general government expenditures were increasing by 1 percent in the EEC countries the state and local government expenditures were increasing by 1 percent in the EEC countries, the state and local government expenditures were increasing by 1.12 percent. In Greece, however, to an increase in general gonvernment size of 1 percent there corresponded an increase in local government size of only .55 percent! A great contrast indeed.

THE IMPLICATIONS

The main reason for the centralization observed in Greece, contrary to what happens in the EEC and other countries, is the deprivation of local authorities from tax revenues even from some of their own services. To meet their expenses, local governments i. e. municipality and community authorities depend, to a large extent, on central government hand outs. This is in contrast to what happens in other countries where state and local governments depend, primarily, on their own tax revenues. These revenues are basically collected from property - income taxes and sales taxes. In Greece, on the other hand, the main part of the limited municipal and community revenues comes from the provision of certain services e. g. sanitation, cemeteries, sidewalk leasing etc.

A good part of such revenues is collected along with the electricity bills by the Public Power Corporation. More specifically : About 57 percent of the total revenue of local government comes from "other subsectors of general government"; 21 percent from "property income receivable"; 16 percent from "indirect taxes", and 6 percent from "direct taxes".

It should also be noted here, that in other countries a wide variety of additional services are offered by the local authorities. Those services include elementary, secondary and (in the case of New York Sity) higher education; police and fire protection; hospital care and mass transportation facilities, as well as court functions. It is expected, therefore, that higher levels of revenue will be needed in order for the local authorities to finance these additional services. From a sociopolitical point of view, such extensive delagation of power to local authorities would defuse decision - making to more people and strengthen the democratic institutions.

It is paradoxical that even in some socialist or centrally planned countries the trend is towards more decentralization, while the opposite is true for Greece. In neighboring Yugoslavia, for example, central government expenditures and revenues declined significantly in the 1960s and 1970s in favor of "communities of interest" and "special funds" for public works[1]. At the same time, the centralization trend continued in Greece and there are no signs in the horizon for the reversal of this trend.

Furthermore, it can reasonably be expected that, in Greece, central gonvernment transfers to local governments will be under pressure of reduction in the future. There are several factors working in that direction : For one thing, a reduction in tariffs on imports, to about half their present levels, is expected in the years ahead. Presently, tariffs represent about 22 percent of the value of imports. However, they are expected to the reduced to 10 - 12 percent, as a result of Greece's accession to the Common Market and the harmonization of her trade and tax policies.

These expectations are substantiated by our recent empirical research. Indirect taxes and primarily tariffs, which depend more on imports than private consumption and inflation are far higher in Greece than the EEC. A simple regression analysis, for the period 1950 - 1978, reveals that the regression coefficients of indirect taxes on imports were 0.57 for Greece and

1. For comparisons see: N. V. Gianaris; The Economies of the Balkan Countries: Albania Bulgaria, Greece, Romania, Turkey, Yugoslavya; (New York, Praeger 1981), ch. 5.

0.45 for the EEC. On the other hand, a logarithmic multivariate analysis of indirect taxes on private consumption, imports, and inflation generated the values of 0.36 and 0. 26, respectively, for the same regression coefficients. In both cases the fit of the regression was very good ($\bar{R}^2 > 0.925$)[1].

Moreover, as a result of Greece's membership to the EEC, the introduction of value added tax by the end of 1983, will most probably generate less tax revenues than the present turnower and other taxes. The reason is that Greece's industrial sector is not as advanced as that of the EEC and, therefore, the production stages for which taxes are collected are not as many. On the other hand, for the imported commodities, Greece will collect value added taxes only for the final retail stages while the exporting countries will reap most of the taxes for the intermediate stages of production.

It becomes evident therefore, that Greece might be forced to introduce sizeable sales taxes - to the degree permitted by the EEC agreements - and/or massive direct income and property taxes. This will be necessary in order to keep revenues at the same levels or (more realistically) increase them equiproportionally to the expected increase in central and local government expenditures. The alternative for Greece would be growing budgetary deficits the financing of which would lead to more inflation.

In either case, the prospects for local government finance and decentralization do not seem to be bright.

1. For details see: N. V. Gianaris: «Puplic Finance: Greece and the EEC», SPOUDAI, January-March 1980,; np. 1-11 and his, «Indirect Taxes: A comparative Study of Greece and the EEC»; European Economic Review; vol. 15, 1981, pp. 111-7.