

## The Grand Tour: Keynes and Goodwin go to Greece

Topic: Structural decomposition

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The impact of the crisis in the Greek economy was not uniform among the regions, threatening socioeconomic cohesion. In this paper, we explore the concept of the income multiplier in a multi-regional setting, in the context of the Greek recession, showing empirical evidence for the increasing magnitude of the multiplier during the recession period. We present some basic information on the uneven regional impacts of the Greek crisis to motivate further our case study. We use a unique database comprised of two fully specified interregional input-output tables for Greece, estimated for the years 2010 and 2013. Despite some difficulties associated with the process of estimation of the database that generate some caveats in the analysis, we provide some insights to be further explored in future studies. What has happened to the national income multiplier during this period? Have Greek regions adjusted in different ways with implications for the changing value of their respective multipliers, and, consequently, for the design of countercyclical regional policy prescriptions? Using techniques of structural decomposition analysis (SDA) for comparing different economic structures in the context of partitioned input-output systems, we are able to assess the main driving forces of the changes faced by the Greek regions in the first years of the economic recession and fiscal austerity. We show that changes in final demand – mainly in investment and government demand – were the main drivers of the setback of the economy. However, technical change was also an important element to drive changes in regional income. In spite of its smaller magnitude, it has played different roles for different regions. While in some regions technical coefficients have adjusted through stronger internal linkages that favoured the internalization of the multiplier effects, other regions increased their dependence upon the rest of the system, increasing the existing leakages. Overall, the national income multiplier for Greece increased by 5.9% from 2010 to 2013. Moreover, all regions also faced increases in their value added (income) multipliers during the recession period, notwithstanding differences in the intensity and in the spatial distribution of the changes. The main results reveal a complex system of interregional relations on some of whose structural characteristics the cyclical reaction paths of the regions depends. In this case, the use of fiscal instruments to stimulate local activity in the regions may bring about important implications for regional inequality in Greece.