Tax incentives, discriminatory factor prices and the regional economic problem: the case of Greece

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Abstract: In this article an appraisal of the Greek regional incentive provisions enacted in the past is attempted. At a first stage, the exposition of some theoretical arguments, that should be followed in the planning of every regional incentive process, and which are very well founded, is given. These theoretical arguments are derived from a geometric and algebraic exposition of the regional problem. At a second stage, the Greek regional incentive structure is reviewed to see whether it was in accordance with the powerful theoretical arguments presented. It was shown that no proper consideration was given to the importance of labor subsidies as a means for the solution of the regional unemployment problem, while capital cost differentials existed to an extensive degree. A shift of investment then to developing areas was found, which could have contributed to the provision of regional investment subsidies. But it was indicated that capital intensive industries were those that had caused the shift and thus investment incentive provisions did not succeed in resolving the regional unemployment problem.

Key words: tax incentives, regional economics, discriminatory factor prices

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