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Investment in Construction and Economic Growth in Greece

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Abstract

The current crisis that affects Greece had been caused by the economic “bubble” that burst in the construction sector of the US economy and transmitted rapidly in the EU and especially in our country. This article aims to highlight the failures and focus on the construction sector of the Greek economy and jointly consider as co-responsible for the current situation. What was hitherto policy of Greek economy in housing construction sector and what should be in the near future so as to help avoid similar situations?

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1. The construction activity and the economic growth

The role of construction and more particularly of housing in economic development is approached by several authors and international organizations differently. Some of them focus their interest in developing countries (Turin, 1973, World Bank 1984, Wells, 1987, Ofori 1980). So Turin (1973) and Wells (1987), comparing the construction activity in some countries, identify a relationship between investment in construction and economic development. They accept the classical theory of development whereby the capital formation is the main engine of economic growth and development. In the aftermath of the 1980 crisis, the shock of petroleum and the global financial crisis that followed 1981, the majority of sub-Saharan Africa has experienced a long decline in per capita national income, reported in their study Lopes et al. (2002). Then the researchers conclude that by deepening the causes of recession the construction industry will have to follow rather than precede the economic development (Lopes et al. 2002). The extent or the development of this sector in the economy needs special attention because as outlined: During periods of rapid economic expansion, construction output usually grows faster than of the output of other sectors, but during periods of stagnation, the construction industry is the first to suffer. (Ramachandra, Rotimi. and Rameezdeen 2013, p. 60).

The recent crisis (2008) in the construction sector of the US economy, as expected, has been investigated by many researchers such as: (Baker 2008, Holt 2009). The central element in the current financial crisis is the housing “bubble”. The irrational exuberance surrounding this bubble created an environment that was ripe for the cowboy financing that got Wall Street and the country into so much trouble (Liebowitz 2008). Liebowitz emphasized the role of government in weakening mortgage underwriting standards. The loose rules should be encouraged speculation, which led to a rapid increase in mortgage defaults, when house prices stopped rising. (Liebowitz, S. J. 2008).

In the literature of economics mentioned many different causes of the crisis. Namely Keynes wrote in his work *Treatise on Money* [1930], Depressions arise when money is shifted from the 'industrial circulation' into the 'financial circulation'. But crises occur even when producers and consumers behave morally, which is the most common. Fluctuations in the economy revolves around a trend. Determined by the behavior of producers and consumers. Consumer behavior is the heart of economic theory. The business cycle is determined by the interaction between income and the size of investment (Bortis p.12). Especially for developing countries, in most developing countries, the construction industry has failed to play its expected role of providing the basis for socio-economic development, and securing improvements in the living conditions of the citizenry (Ofori 2006). Building activity is for some people important factor for economic growth and for others is a recession. Greece is experiencing one of the strongest attacks in its history. What was the role of construction activity in this crisis and what should be in the future, so that the country must not experienced similar crisis?

The structure of this work is organized in this manner: Initially this article examines the concept of the Greek Society for the construction activity, then attempted a comparison of policy in construction of Greece with other countries and finally critically presented the view of the direct current concerning the building activity and prospects and society potential deadlocks in regarding this field.

2. The construction activity in Greece

Greverus writes about the relation to the construction activity in Greece, a few years after the founding of the Greek state (1830), during the era of King Othon: A large number of the houses built for speculation. Established companies that construct buildings which cost 16-20000 drachmas and rented for 6-8000 a year. So by rising rents too high and only few people could build their own residences, they use part of the house as a place to stay and the other part to rent. Members of many such companies are increasing their profits by 30%, see themselves in a position to be able to live like as the Orientals did, ie. By spending a life in the café shops (Greverus, pp. 22-23). According to Νικολαΐδου (1993), investments in real estate and the commercialization of real estate in Athens and Piraeus was usual gainful activity of the upper-class and middle-class in the 19th century. According to official estimates, during the period from 1940 -1944, 409,000 urban houses were destroyed" (Παπαδόπουλος, p. 22).

During the same period 350,000 homes changed ownership in the black market because of the starvation that plaguing particularly to urban residents (Σάμιος, 2010 p. 18). So after the end of the wars it was obvious that were created a high demand for housing in particular urban centers for the resident's needs. This urgent demand passed on to similar construction activity. For the entire period 1951-1975, 30.6% of total investment activity or 43,3% of private investments directed at building structures, while industries remain at 14.1%. (Μαύρης, 1984).

In the decade from 1950 to 1960, was the beginning of the postwar urbanization which led to further burst of building activity, because some parents believed that if their daughter had an apartment in the city will have a better luck in finding a husband. So buying an apartment before the need was created (Μαράτου-Αλιμπράντη, 1987, p. 80). This option shows the mentality of the society that prefers to obtain an urban residence rather than in preferring professional qualifications, i.e. urbanization without industrialization. Particularly during the first postwar phase (1950-1961) the investment in the construction sector was 46.3% of

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