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**NEGOTIATING DEADLOCK AND INSISTENCE ON AUSTERITY POLICIES FURTHER  
UNDERMINE GREEK ECONOMY, NEW LEVY REPORT SAYS**

**Alternative Financing Sources Such as Zero-Coupon Bonds (“Geuros”) and Fiscal Credit  
Certificates Could Stimulate and Restore Faith in Greek Economy,  
but Only if Debt Is Rolled Over and Harsh Austerity Measures Put Aside**

ANNANDALE-ON-HUDSON, N.Y.— More than four months into negotiations, and with a default and potential exit from the European Union looming for Greece, members of Greece’s newly elected government and the country’s international creditors remain at an impasse on a deal to renew the terms of its existing debt. A new report from the Levy Economics Institute of Bard College argues that the protracted stalemate has been harmful to Greece’s economy, and contends that the creditors’ insistence that continued austerity measures, including pension cuts, be part of any rescue deal will further push Greece toward recession and default.

“The Brussels Group’s failure to achieve an agreement quickly has put the economy in a state of fundamental uncertainty,” writes the Levy Institute’s Macro Model Team—President Dimitri B. Papadimitriou and Research Scholars Michalis Nikiforos and Gennaro Zezza—in their new Strategic Analysis, *Greece: Conditions and Strategies for Economic Recovery*. “If no agreement is reached and ‘the institutions’ (the Troika) insist on debt repayment, it is inevitable that Greece will default within the eurozone, or possibly even exit the eurozone. This outcome would be a consequence of irrational behavior on the part of Brussels, since the costs of a Greek default would be larger than those arising from an agreement under the government’s proposals.”

Stressing the failure of two of the major goals of the troika’s austerity policies—lowering government debt as a share of Greece’s GDP, and improving exports and price competitiveness through devaluation and deflation—the Levy team argues further that, were Syriza to accept a deal based on continued austerity policies, the results would be equally ineffective. “Since Greece has achieved a primary surplus (albeit small), and even (some of) the institutions now understand that fiscal austerity implies a further drop in GDP, forcing the government to continue cutting public employment would not be effective, and would create further strain on the already devastated Greek people,” they write.”

Using the Levy macroeconomic model to analyze the potential outcomes for the Greek economy in the medium term, the team argues that, if the institutional members of the Brussels Group continue to push Greece toward default on its debt by insisting on a path of austerity for fiscal

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policy and the labor market, Greece will experience a further recessionary period, with private investors reluctant to start new businesses in a country where the prospects for profitability are low and very volatile, households and firms will continue to deleverage, and the recent surge in tourism-related activities will not be sufficient to jump-start a recovery in 2015. Should the Greek government gain access to refinancing its existing debt at the current, very low interest rates, and uncertainty is at least partially lifted, the Levy scholars argue that “investment will come back, generating sufficient growth in the second half of 2015 to more than offset the turbulent first months of the new government. In this case, government debt as a percentage of GDP will fall from 2016 onward.”

Even in the team’s more “optimistic” baseline scenario, however, the simulation shows that, without further expansionary policies, recovery will be slow, in the face of the humanitarian crisis and high level of unemployment Greece is currently enduring. To provide the impetus and liquidity needed to grow the economy and create jobs, the authors offer two proposals to fund a program of direct job creation: zero-coupon bonds (“Geuros”) and fiscal credit certificates, two alternative financing sources that would keep Greece in the EU. The first proposal focuses on the issuance of a nonconvertible parallel currency—the Geuro—that the government would accept, *pari passu*, in fulfillment of tax obligations. “Introducing the Geuro would allow the government to finance much-needed job creation, and by restoring liquidity should help stabilize expectation and foster private investment,” they write. “Our model simulation shows that such a program would allow Greece to achieve a higher growth rate more quickly, and create a substantial number of new jobs—albeit at a minimum wage—while the level of debt relative to GDP would fall faster. The government deficit denominated in euros would fall while a deficit in Geuros would arise, but the potential inflationary impact of this additional liquidity would be negligible.”

Papadimitriou, Nikiforos, and Zezza contend that a similar fiscal impact could be provided by the emission of fiscal credit certificates, or FCCs—non-interest-bearing bonds that are accepted for tax payment at maturity, which is assumed to be two years. The certificates would not be used as currency, but rather sold at a discount to obtain liquidity. “Our simulation shows that, again, an expansionary fiscal policy financed through FCC emission would be effective in sustaining growth and job creation,” they write, “while keeping government accounts in euros in line with the requests of the institutions”

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Strategic Analysis: *Greece: Conditions and Strategies for Economic Recovery*

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit <http://www.levyinstitute.org/publications/greece-conditions-and-strategies-for-economic-recovery>.

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