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SPECTACULAR FAILURE OF "EXPANSIONARY AUSTERITY" POLICIES HAS SET GREECE ON PATH WORSE THAN GREAT DEPRESSION, LEVY STUDY SAYS

Using Their Newly Constructed Macroeconomic Model for Greece, Levy Scholars Recommend Recovery Strategy Similar to the Marshall Plan to Increase Public Consumption and Investment

ANNANDALE-ON-HUDSON, N.Y.— Employment in Greece is in free fall, with more than one million jobs lost since October 2008—a drop of more than 28 percent. In March, the "official" unemployment rate was 27.4 percent, the highest level seen in any industrialized country in the free world during the last 30 years. A new study from the Levy Economics Institute of Bard College argues the austerity policies set forth by the "troika," the group of international lenders who funded Greece's bailouts, have been a failure, and shows that continuing such a policy prescription will only worsen Greece's jobs, growth, and deficit outlook.

"With joblessness in Greece now above 27 percent—a stark indicator of the troika's failure to accurately project the consequences of their own policies—it's astonishing that (European Commission) and (International Monetary Fund) officials continue to ask for more of the same," write Levy Institute President Dimitri B. Papadimitriou and Research Scholars Michalis Nikiforos and Gennaro Zezza in their Strategic Analysis, *The Greek Economic Crisis and the Experience of Austerity: A Strategic Analysis.* "This analysis seeks answers to Greece's continuing spiral of lost GDP and employment and higher public deficits and debt, which in our view is the result of foolish policy enacted by the government in its attempt to comply with the terms of a fiscal consolidation program imposed by its international lenders."

Using the newly constructed Levy Institute macroeconomic model of the Greek economy, or LIMG—a stock-flow consistent model similar to the Institute's model of the US economy—the Levy scholars analyze the economic crisis in Greece and offer policy recommendations to restore growth and increase employment. Based on the LIMG simulations, the authors find that a continuation of austerity policies would lead to lower GDP and higher unemployment numbers than those forecast by the troika. In their baseline scenario, the authors contend that, based on the

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troika's projections for changes in government revenues and outlays, GDP will grow more slowly and the unemployment rate will rise more sharply (near 34% by the end of 2016) than the troika contends they will, and that deficit targets will not be met, with the deficit-to-GDP ratio reaching 7.6 percent by 2016. Meeting the troika's deficit targets, the LIMG model shows, would cause GDP and employment to decline even further than in the baseline scenario—another example of the "faulty thinking" used to support the troika's projections, which the Levy scholars call overly optimistic. "In addition to the errors in the values of the fiscal multipliers and the doctrine of 'expansionary austerity,' there are implicit supply-side effects emanating from market liberalization and internal devaluation, with all effects converging to produce higher output growth and employment, together with lower deficit-to-GDP ratios," Papadimitriou, Nikiforos, and Zezza argue. "These flaws help to explain why, in the absence of any level of economic stimulus, the troika projections are so optimistic. In other words, the troika model is still based on theoretical assumptions that have been proven wrong by the spectacular failure of the austerity programs of the last three years."

The authors conclude by recommending a recovery strategy, similar to the Marshall Plan, to increase public consumption and investment—a strategy centered on an expanded direct public-service job creation program. Their projections show that, using funds from the European Investment Bank or other EU institution, a modest fiscal boost of $30 billion (used at a rate of about $2 billion each quarter) would fundamentally change the outlook for Greece's economy, with GDP growth exceeding all previous scenarios, an increase of more than 200,000 jobs over their baseline scenario, and a lower government deficit than in their baseline and GDP-target scenarios. "The simulations discussed show clearly that any form of fiscal austerity results in output growth and employment falling into a tailspin that becomes harder and harder to reverse," the Levy scholars write. "We have shown that a relatively modest fiscal boost funded by the appropriate EU institutions could not only arrest the further declines in GDP and employment but also reverse their trend and put them on the road to recovery. A Marshall-type recovery plan directed at public consumption and investment is realistic and has worked in the past."

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Strategic Analysis: *The Greek Economic Crisis and the Experience of Austerity: A Strategic Analysis*

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