Contact: Mark Primoff
845-758-7412
primoff@bard.edu

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TOURISM WON'T SAVE GREECE, NEW LEVY INSTITUTE REPORT SAYS

A Shift in Fiscal Policy Toward Lower Taxation and Job Creation Is Urgently Needed

ANNANDALE-ON-HUDSON, N.Y.— Citing a lower year-to-year drop in GDP and a slight decline in unemployment, the International Monetary Fund appears more optimistic about the future of Greece in its latest assessment of the country's economic performance. A new report from the Levy Economics Institute of Bard College argues, however, that modest improvements in tourism and in the trade balance are unlikely to have a significant impact on an economy that has been pushed into deflation by stubbornly high unemployment, free-falling private investment, and declining production.

"Economic growth and increased domestic demand will not come about from private sector expenditures while the household sector, overburdened by ever-increasing taxation, continues to deleverage and the business sector is without viable options for financing investment," write Levy Institute President Dimitri B. Papadimitriou and Research Scholars Michalis Nikiforos and Gennaro Zezza in their new Strategic Analysis, *Will Tourism Save Greece?* In their report, the scholars assess the prospects for economic recovery if Greece continues to follow the troika strategy of fiscal austerity and internal devaluation, with the aim of increasing competitiveness and thus net exports. "The simulation results of the Levy Institute's macroeconomic model for Greece (LIMG), based on the financial balances approach, make it impossible for a policy of prolonged fiscal consolidation to succeed unless a large and growing current account surplus is achieved, which is probably impossible in the foreseeable future," they write. "The unprecedented decline in real and nominal wages may take a long time to exert its effects on trade—if at all—while the impact of lower prices on tourism will not generate sufficient revenue from abroad to meet the targets for a surplus in the current account that outweighs fiscal austerity."

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The Levy scholars write that, with the exclusion of oil and shipping, the recovery in the trade balance is entirely due to the dramatic fall in imports generated by the recession in Greece, and that, despite the millions of tourist arrivals, tourism has had only a minimal impact on employment and the balance of payments. They conclude by calling for an immediate shift in the fiscal policy stance toward lower direct and indirect taxation, and publicly funded work. "High unemployment and declining production, which weigh heavily on domestic demand, have pushed Greece into deflation territory, which is unlikely to be a relatively short term phenomenon," they write. "Reducing the stubbornly high unemployment rate and reversing the declining fortunes of households are urgent public policy priorities. . . . The business-as-usual approach—characterized by harsh austerity programs that deliver no growth and maintain unprecedented levels of unemployment into the intermediate term—must come to an end."

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Strategic Analysis: *Will Tourism Save Greece?*

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/will-tourism-save-greece.

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