FOR IMMEDIATE RELEASE

LATEST ROUND OF AUSTERITY MEASURES IN GREECE WILL LEAD TO SEVERE RECESSION, NEW LEVY ECONOMICS INSTITUTE STUDY SAYS

ANNANDALE-ON-HUDSON, N.Y.—To continue meeting its obligations as part of last year’s Memorandum of Understanding (MOU) with its European Union creditors, the Greek government has agreed to a new round of fiscal austerity measures, including sharp increases in property and income taxes as well as further reductions in pensions and other welfare-related programs. A new study from the Levy Economics Institute of Bard College argues that these fiscal austerity policies will cause a recession unless other components of aggregate demand increase enough to more than offset the policies’ negative impact on output and employment.

“We expect economic conditions to worsen as the new austerity measures take hold,” writes the Levy Institute’s Macro-Modeling Team—President Dimitri B. Papadimitriou and Research Scholars Michalis Nikiforos and Gennaro Zezza—in their Strategic Analysis, Greece: Getting Out of the Recession. “If no corrective action is taken to offset them, we expect the economy to suffer another year of severe recession, and then to experience very modest growth beginning in 2017.”

The Levy authors contend that the principle aim of the fiscal austerity and labor market reforms imposed on Greece—to turn a current account deficit into a surplus large enough to more than offset the impact on the economy—has proven to be a myth. “The troika’s strategy of increasing net exports to restart the economy has failed, partly because of the low impact of falling wages on prices, partly because of low trade elasticities with respect to prices, and partly because of a sharp reduction in transport services, which used to be Greece’s biggest export industry,” they write.

Furthermore, to meet the MOU debt repayment targets agreed to in 2015, a large part of government expenditure, including tax refunds and other payments to the private sector, has not been paid, further sapping economic growth and employment. “Given that the government has an additional growing debt in arrears, new loans from the troika of €10 billion annually will barely be enough to roll over the existing debt coming to maturity. In order to reduce the current level of debt, fiscal austerity needs to generate an overall government surplus, not merely a primary surplus,” the Levy scholars write. “Such a policy would be devastating for a country that has already experienced an extraordinarily long and deep recession, with a sharp increase in unemployment and poverty. Debt forgiveness, more than debt restructuring, is needed.”

In their baseline scenario analyzing the performance of the Greek economy through 2018, Papadimitriou, Nikiforos, and Zezza contend that, if the government is indeed able to raise taxes
and cut pensions as prescribed in the MOU, the economy will experience another recession in 2016, with real GDP falling by 0.7 percent, recovering to a growth rate of only 0.2 percent in 2017 and 1.4 percent in 2018. In two other scenarios, they explore alternative policy initiatives that would provide urgently needed boosts to aggregate demand that could trigger an increase in confidence and encourage renewed private investment. In the first, they estimate the impact of eliminating the Greek government’s domestic debt in arrears, as well as other government increases in public investment, by €2 billion in 2017 and by €4 billion in 2018. In this scenario, the economy returns to robust growth in 2017, but the recovery is not substantial enough to generate a rapid increase in employment. In the second scenario, they consider the additional impact of a fiscal expansion financed through the introduction of a complementary fiscal currency, the Geuro, that the government could issue to avoid the fall in nominal wages and pensions, and to finance employment programs—mainly public benefit jobs provided to people willing to work for a minimum wage, set at a level that is noncompetitive with private sector employment yet sufficient for obtaining a decent standard of living. In this scenario, GDP growth recovers more robustly, to 5.2 percent in 2017 and 3.7 percent in 2018.

“Our contention in this report is that 2016 is unlikely to end with improvement in the Greek economy’s GDP growth rate, despite the government’s pronouncements,” the Levy team writes. “Our simulations show, however, that if the arrears accounts are cleaned up and an increase in investment occurs, the government’s projection of 2.7 percent GDP growth in 2017 may come to pass. This is not, of course, a cause for celebration, since employment will not increase dramatically. Our second scenario, however, could provide robust growth from 2017 onward, together with very significant gains in employment. It has worked in other countries, and it can work in Greece.”

###

Strategic Analysis: *Greece: Getting Out of the Recession*

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-getting-out-of-the-recession](http://www.levyinstitute.org/publications/greece-getting-out-of-the-recession).

(10.18.16)