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CONTINUATION OF AUSTERITY MEASURES WILL PROLONG GREECE'S NATIONAL CRISIS FOR MORE THAN A DECADE AND POSES CONTAGION RISK FOR EUROZONE, NEW LEVY INSTITUTE REPORT SAYS

ANNANDALE-ON-HUDSON, N.Y.— Vowing to renegotiate the terms of Greece's bailouts—including reversing many austerity measures, repealing labor market reforms, and restructuring a portion of the country's sovereign debt—the anti-austerity Syriza party continues to lead polls ahead of Greece's election on January 25. The impending vote has spurred renewed discussion about Greece exiting the eurozone and is being closely watched by financial markets. A new report from the Levy Economics Institute of Bard College argues that despite some timid signs of recovery, notably in the tourism sector, it will take more than a decade for Greece's real GDP to return to its precrisis level and for unemployment to fall to an acceptable range if no stimulus is provided to the economy.

In their new Strategic Analysis, *Is Greece Heading for a Recovery?,* Levy Institute President Dimitri B. Papadimitriou and Research Scholars Michalis Nikiforos and Gennaro Zezza show that the speed of a market-driven recovery would be insufficient to address the urgent problems of poverty and unemployment. "The protracted austerity to achieve the higher level of government surplus (about 4.5 percent of GDP) required to service the country's sovereign debt would but ensure the continuation of the national crisis, with spillover effects to the rest of the eurozone—especially now, when it is vulnerable to another recession and a prolonged period of Japanese-style price deflation," they write.

Using the Levy Institute Model for Greece (LIMG), the authors evaluate the impact of policy alternatives aimed at stimulating the country's economy without endangering its current account, including capital transfers from the European Union, suspension of interest payments on public debt and use of these resources to boost demand and employment, and a New Deal plan using public funds to target investment in production growth and finance a direct job creation

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program. They find that a scenario combining a New Deal direct investment / jobs program with a moratorium on interest payments to public sector institutions would have the greatest impact on improving the growth and employment picture in Greece.

"The strategic policy options available to Greece are dreadfully narrow. Solving the immense problem of unemployment, reversing the decline in household income (which has fallen by more than 30 percent in the last three years), and halting the rise in poverty rates will not be brought about by private sector expenditures. This will require, instead, the political will of the Greek government and the EU political elite to change the present course and implement policies of the sort offered in this report. These policies are not new. They are identical to those implemented to save Germany after World War II, which included a Marshall Plan loan (never repaid), the suspension of interest payments on the country's enormous sovereign debt, and, finally, a significant write-down of public debt."

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Strategic Analysis: *Is Greece Heading for a 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/is-greece-heading-for-a-recovery.

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