ATHENS MINSKY CONFERENCE
INTRODUCTORY REMARKS (11/8/2013)
Dimitri Papadimitriou

I want to begin with welcoming you and our speakers some of whom have travelled from far away places, to this conference organized by the Levy Economics Institute of Bard College in New York.

I also want to thank the Ford Foundation and especially senior program officer Leonardo Burlamaqui not only for making available the financial resources to organize this conference, and other international activities but also for his guidance to the Institute's program on Financial Instability and the Reregulation of Financial Institutions and Markets.

Many thanks are also due to our many media sponsors for publicizing this event and to Chronis Polychroniou for his tireless efforts in dealing with the many logistical details, here, in Athens.

The conference is an outcome of the Institute's research program on Monetary Policy and Financial Structure headed by the Institute's long-time senior scholar Jan Kregel. Jan, who was chosen by the President of the UN General Assembly's Commission on Reform of the International Financial System to serve as Rapporteur, inherited this research endeavor from the late Hyman Minsky, a maverick economist, who initiated it when he joined the Institute in 1990 and whose prescient contributions to economics have finally been recognized not only in the United States and Europe, but also all over the world.

The Levy Institute was established in 1986 as a unit of Bard College. It is an independent, nonprofit, nonpartisan public policy think tank that encourages diversity of opinion in the examination of economic issues profoundly affecting the United States and the rest of the world. We are concerned with financial instability, the capital development of the economy, growth and unemployment, the purchasing power of workers, the distribution of income, wealth and well being, and gender equality.

Our focus is on generating viable, effective public policy responses to pressing economic problems. We bring together academics, business leaders, policy makers and the public to debate and at times contest dominant ideas in the hope of serving the public interest.

We invite you to take a look at the various Institute publications related to the topics of this conference and to visit our website that averages more than half a million of page downloads per month.

The purpose of this conference is to broaden the discussion relating to the crises in Greece and the Eurozone to a wider audience interested in understanding the root causes of the crises from the perspective of careful research and analysis. My colleagues and I have argued as early as 2010 that the diagnosis of the crisis and the corrective actions proposed by the Troika and followed by the three successive governments in Greece were ill conceived.

As we hope to show tomorrow through our specially constructed stock-flow consistent macroeconomic model for Greece, the prospects for the country are not encouraging should business continues as usual. The simulated trajectories of the financial balances of the three main sectors of the economy, i.e., private, public and external for the next three years are very much different from those suggested by the Troika and the Greek government.

We pride ourselves on our models' capacity to offer predictions, at least for the US that are more accurate than those of conventional models, the types of models that the Troika also uses.

High public deficits and debt together with bad policies have created unstable markets. The ineffective and disastrous austerity policy responses miscalculating fiscal multipliers have made matters worse delivering catastrophic levels of unemployment, deepening recessions, declining fortunes and high levels of poverty and despair.

Euphoric periods with accommodative monetary and fiscal policy helped increase both the government and private sectors' borrowing and debt, linked to the deterioration of the balance of payments. Indeed, there is a macroeconomic identity linking the internal (private and public) with the external (current account) balances, and although this identity is not a theory, it informs policy.

The importance of this identity will be analyzed with considerable detail tomorrow when we discuss the Levy Institute's model for the Greek economy and what we expect will happen in the next three years should the present course of austerity continues.

The introduction of the euro was based on member countries' convergence of domestic inflation represented by an inflation target, a government deficit and debt to GDP ratios, disregarding the widely different domestic economic and monetary conditions across countries.

Even though convergence of the monetary variables was achieved, it came with increasing divergence of real economic performance, for example, in productivity, labor costs and real rates of return across member countries.

And this divergence surfaced as intraregional trade imbalances financed by increasing cross border lending within the Eurozone.

Furthermore, because of inflation and interest rate convergence, financial institutions did not recognize risk differentials across the member states. The relative risks of individual countries issuing sovereign debt that should have been dependent on the real economy of each country disappeared.

Ultimately, this meant that the ability to repay debt became more and more dependent on the ability to borrow to meet interest and principal payments. This process, of course, is nothing, but as Hyman Minsky called it, a Ponzi scheme or a house of cards.

As lenders came to recognize the inability of the borrower to service (validate) debts, they withdrew support, and financial instability became a financial (sovereign debt) crisis.

This, of course, can be attributed to the faulty structure of the Eurozone, a topic that will be the focus of many presentations that follow.

A year ago, we organized a similar conference in Berlin, with the purpose of entering in a dialogue with government representatives from Germany and other North European countries, the European Central Bank, the US Federal Reserve, academicians and business leaders concerned with the continuing crisis, the ineffectiveness of policies dealing with the crisis in the Eurozone and the disastrous results that have ensued in the periphery member states.

It was pointed out to those who had argued that the Greek crisis exposed the profligate Greek government and its citizens that this was contrary to the evidence. At the onset of the crisis, Greece had one of the lowest per capita incomes in the European Union, and its social safety net was modest compared to the rest of Europe.

But reading the press at the time, one was given the impression that the Greeks enjoyed one of the highest standards of living in Europe while the frugal Germans were forced to pick up the bill. By contrast, Germany and France spent more than double the Greek level of social protection benefits. Even Ireland spent more on social protection than the supposedly profligate Greeks.

Even if we took into account, as many had, then, argued, that corruption run rampant in Greece, its administrative costs were lower than those of the German, French and Irish bureaucracies. Even spending on pensions before it was decimated, was lower than in other European countries.

Since the Berlin conference, the Eurozone's sovereign debt continued to increase despite the harsh austerity imposed by Berlin and Brussels. Debt dynamics are complex but the debt level of the South European periphery is accumulating at an accelerating pace, for Greece it is about 170 percent of GDP, Italy at 130 percent, Portugal at 127 percent and Ireland at 125 percent.

What is clear however is that austerity means that falling wages, and pensions reduce consumption and retail sales, and hence government revenues necessitating higher taxes that further reduce income and output and continuously increasing the debt to GDP ratio.

For the Eurozone as a whole public debt is at 94 percent of GDP, much higher than the artificial 60 percent of the Maastricht Treaty and the level Germany insists that it be followed. As the bigger troubled economies like Spain and Italy are also under the grip of austerity, the entire continent would ultimately see government revenues collapsing.

Worse, exports to neighbors are hurt by a reduction in demand as it has happened in Greece. Lower wages, pensions and prices in one member country would engender competitive deflation and could compound the problem as each country tries to gain advantage in order to promote growth through exports.

What is most remarkable is that the EU's largest exporter, Germany, does not yet appear to recognize that its insistence on fiscal austerity for all of its neighbors and the promotion of the "beggar thy neighbor" export-led strategy can neither last very long nor will be accepted by the those charged with running the global economy as demonstrated by the recent strong voices coming from Washington.

Many of us at the Levy Institute suggested, early on, that what was needed was a way of redirecting demand to the trade deficit nations for example, by having surplus nations spend euros on direct investment. Such a mechanism could be set up very quickly under the aegis of the European Investment Bank.

Effective incentives to recycle current account surpluses via foreign direct investment, equity flows, foreign aid, or imports could be easily crafted. These suggestions have fallen on deaf ears in Berlin and Brussels.

As we will show tomorrow, the strategy of internal devaluation that has achieved a 30 percent reduction –surpassing troika's initial target of 15 percent—has proved to be detrimental for living standards and domestic consumption, the most important stabilizing driver in an economy.

In Greece, the path of exports, as the evidence shows, was unstable before the crisis and is still unstable despite the modest increase that is not sufficient to

offset the precipitous decline of private and public consumption. To be sure, exports are important, but domestic demand is crucial.

Even China, the largest export-oriented economy, after the global collapse of exports, took the necessary steps to increase and stabilize its domestic demand. And this should be the emphasis for Greece and the other countries of Europe's South.

The government has begun celebrating from now that a primary budget surplus would be achieved this year and is on a media campaign to convince the Greek citizens of the importance of this milestone. And even if this primary surplus were real—without the use of creative accounting –one should ask what was the cost of accomplishing it?

I hear frequently the word «ατυχημα» but I am not certain what it means. Does it mean that the government might be unable to convince Berlin and Brussels that no additional austerity measures can be implemented to cover the 2014 projected budget gap or that projected revenues and/or spending cuts fall short of the targets? In my view a responsible government cannot be guided by happenstance.

What is to be done now? The South European nations and especially Greece need a pro-growth and employment policy. As we will show again tomorrow there are ways that these goals can be achieved.

All of what I said up to now is drawn from the work of Hyman Minsky and Wynne Godley both of them distinguished scholars of the Institute for many years. Hyman Minsky is known for developing the financial instability hypothesis and documenting the important roles of "BIG GOVERNMENT" and "BIG BANK" while Wynne Godley was a master forecaster and the architect of macroeconomic stock-flow consistent models that simulate the trajectories of the three main sector financial balances with peerless accuracy.

This conference in a way is a tribute to their contributions in economics, and to us.

Finally, it is our sincere hope that this conference will present a true picture of the crises in the Eurozone and Greece and the experience of austerity, and provide new ideas for an exit from these crises in contrast to the strategies that are in place now.

Thank you very much for coming and enjoy the conference.