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BOLD RESTRUCTURING OF GREEK PUBLIC DEBT IS NEEDED, NEW LEVY ECONOMICS INSTITUTE STUDY SAYS

Debt Deal Must Address Broader Challenges of Greek Economic Malaise and Structural Imbalances in Eurozone

ANNANDALE-ON-HUDSON, N.Y.— With another debt repayment deadline approaching in July, International Monetary Fund and eurozone finance ministers are embroiled in discussions over the next step in the ongoing Greek debt crisis. With more than one million jobs lost and public debt now approaching 195 percent of Greek GDP, a new working paper from the **Levy Economics Institute of Bard College** contends that austerity measures and structural reforms imposed by Greece's creditors have not only failed to stabilize the country's debt, they have also taken a heavy toll on the Greek economy and society. The Levy scholars argue that a bold restructuring of Greek debt is urgently needed, along with a relaxation of austerity measures, Moreover, they say, policymakers must come up with a broader plan to address the malaise of the Greek economy and the structural problems of the eurozone as a whole.

"The situation in Greece is a testament to the catastrophic effect that austerity can exert on an economy and the disastrous consequences it can have for the social fabric," writes the Levy Institute's Macro-Modeling Team—President Dimitri B. Papadimitriou and Research Scholars Michalis Nikiforos and Gennaro Zezza—in their working paper "The Greek Public Debt Problem." "Greece's public debt is clearly unsustainable; therefore, we argue that a bold restructuring of the debt is needed for the Greek economy to reignite its engine of growth. An insistence on the current policies is not justifiable on pragmatic, moral, or any other ground."

In their working paper, Nikiforos, Papadimitriou, and Zezza provide a comprehensive analysis of the issue of Greek public debt, tracing the roots of the crisis back to the Maastricht Treaty and flaws in the design of the common currency area. Furthermore, their examination of the uses of the bailout funds reveals that more than 95 percent of these funds have been used to repay the country's foreign creditors and recapitalize the domestic banking sector. The Levy teams argues that Greece's debt must be restructured, and that the experience of Germany in the early post-WWII period provides a useful lesson for the way forward, with the cancellation of the German public and foreign debt in the aftermath of the war as part of a wider plan for the economic and political reconstruction of Germany and Europe. In their discussion, the authors allude to John Maynard Keynes's attack on the "Carthaginian peace" of the Versailles Treaty, and his warning that the stubborn insistence on demanding reparations that could never be repaid would lead to a serious economic crisis that, in turn, could have serious political repercussions for Germany and the rest of Europe.

Greece's debt "cannot be repaid under any plausible circumstances, and the longer we ignore this reality, the worse it will be for the Greek economy and for the European economy as a whole…. As the past has shown, these situations can have dangerous political repercussions," the Levy scholars write, noting the rising prominence and influence of a neo-Nazi party in Greece. "A sustainable solution requires a wider agenda that deals with the domestic malfunctions of the Greek economy and, most importantly, the structural imbalances of the eurozone."

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Working Paper No. 868, May 2016: "The Greek Public Debt Problem"

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit www.levyinstitute.org/publications/the-greek-public-debt-problem-wp867.

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