PROVIDED ABSTRACTS

RANIA ANTONOPOULOS

"Responding to the Unemployment Crisis in Greece: A Modest 'Employer of Last Resort' Proposal"

Abstract. Unemployment in Greece stands at over 27 percent, and is expected to hit a record high of 30 percent by next year. Since the onset of the crisis, one million people have lost their jobs, and among them, 65 percent are now long-term unemployed. The current macroeconomic framework, which complies with the troika's fiscal target of generating a primary surplus at any cost, raises little hope for a jobs recovery. In this context, the current prescription of active labor market interventions is incommensurate with the problem at hand, and even more important, is based on misdiagnosis. The cause of unemployment is not the quality of the labor supply but a lack of demand for labor, and therefore, improving employability through retraining and facilitating entrepreneurship among the unemployed will not fix the problem. Furthermore, wage and benefits support to promote rehiring in the private sector cannot take us far either, as businesses have to contend with ever-declining household incomes that have severely depressed domestic demand. A "Marshal plan" fiscal stimulus to restart the growth engine is imperative at this point, and such a proposal has recently been put forward by the Levy Economics Institute. A central component of this proposal is a state-supported emergency "direct public service job creation" intervention. In March 2011, a small "project" of "κοινωφελής εργασία" (community service jobs) for 55,000 people was introduced in Greece. It must now be scaled up and become part of an overall growth and stabilization policy. We present the findings of such a policy scenario, an "employer of last resort" program as advocated originally by Hyman Minsky, and of a size that can realistically provide short- to medium-term remediation. In addition to the jobs it will directly create, our research provides evidence of its potential to produce positive macroeconomic outcomes for the overall economy, and poverty reduction results for the unemployed in Greece today.

GIORGOS ARGITIS

"The Troika's Failed Policy Paradigm: The Case of Greece"

Abstract. The onset of the Greek debt crisis in 2010 resulted in the adoption of severe austerity measures, which produced political demands for the adoption of similar policies in other European economies that then entrapped the region in a debt and banking crisis. This paper examines whether the adoption of austerity measures in the case of government default is justified,

and whether it is the appropriate means for reducing the public debt and deficit and restoring the country's solvency and liquidity. The paper points out that the implementation of the troika's austerity strategy in a domestic demand–led economy can reduce the public deficit, but at the expense of the country's macroeconomic, financial, and social stability. In addition, in the case of Greece and other euro-area economies, this strategy has considerably increased the level of fiscal indebtedness. Our analysis concludes that the troika has led Greece into an austerity trap and a debt trap, resulting from a fundamental misunderstanding of the role and function of the public deficit and of domestic demand in the Greek model of capitalism.

GERASIMOS ARSENIS

"The Role of the Banking Sector in the Greek Crisis"

Abstract. The banking sector is usually portrayed as the victim of the current crisis. As a result, attention is focused almost exclusively on the issue of recapitalization. This approach sidesteps the equally important issue of the role that the banking sector itself has played in creating the economic crisis. Episodes such as the "nonperforming loans" of the '50s, the ailing and overindebted firms of the '80s, the asset bubble of the '90s, and the current overindebtedness of households and firms are all examples of misallocation of resources due to dysfunction of the banking sector, which operated under the influence of a "close network of elites" drawn from politics and enterprises. Exit from the crisis requires, among other things, daring institutional reforms that will free the banking sector from the yoke of this network and will enable banks to finance innovative investment activities.

EMILIOS AVGOULEAS

"Beyond the Banking Union: The Possible and Desirable Role of the ECB in Resolving the Eurozone Banking Crisis"

Abstract. The key to the resolution of the eurozone crisis is cleaning European banks' balance sheets from bad loans rather than just recapitalizing them. This was the key to the US recovery. However, the eurozone lacks a common treasury that could offer a fiscal backstop. At the same time, the European Stability Mechanism offers little hope, as the bail-in is, in fact, a controversial recapitalization method and its resources are insufficient. Premised on these assumptions, this paper explains the shortcomings of the bail-in strategy in recapitalizing eurozone banks. It also explores the possibility of extending the role of the European Central Bank (ECB) as market maker of last resort to operate a "euro-TARP" without violating the "no bailout" and monetary financing prohibitions in the European Union Treaty. The paper argues that an ECB-operated investment vehicle utilizing structured finance techniques could relieve eurozone banks from

their toxic assets without unduly exacerbating moral hazard. The major advantages and disadvantages of such a proposal are explored.

KERSTIN BERNOTH

"A Transfer Mechanism as a Stabilization Tool in the EMU"

Abstract. With the crisis in the euro area, the issue of the institutional structure of the monetary union has gained in significance. One problem with regard to the longer-term stability of the euro area is the absence of mechanisms to adequately absorb asymmetric cyclical shocks in the individual member-states. Such an instrument is essential to implementing a single monetary policy suitable for all countries. Consequently, the European Monetary Union (EMU) should be equipped with an economic transfer mechanism—for instance, in the form of common unemployment insurance. This is not an instrument to solve the current crisis but rather to provide more stability to the EMU in the medium and long terms.

JÖRG BIBOW

"Lost at Sea: The Euro Needs a Euro Treasury"

Abstract. Europe's currency union remains stuck in existential crisis. The European Central Bank's (ECB) conditional liquidity-support promise has not fundamentally changed that position at all. The current policy course means an eventual breakup. A "Euro Treasury" has to complement the ECB. Establishing a strong ECB–Treasury axis at the center of a proper Economic and Monetary Union is necessary for the euro to survive and prosper. The presentation begins with highlighting the key euro regime flaws and how these left the currency union vulnerable to both symmetric and asymmetric shocks. A synopsis of the emergence and evolution of the ongoing crisis follows. Next, I will argue that misdiagnosis of the banking-cum-balance-of-payments crisis encouraged serious crisis mismanagement, magnifying the wreckage. Regime reforms pursued since have not resolved, and will not resolve, the crisis; nor will they foster any recovery (other than by freeloading on external growth). Finally, I will outline the main functions and principles of operation of the proposed Euro Treasury.

PHILIPPE GUDIN DE VALLERIN

"The Outlook for the Resolution of the Euro Crisis"

Abstract. My view is that the crisis is not over, and that governments will have to continue to work on a long-term resolution, involving reforms at both national and European levels. For me, this crisis was due to a lack of economic, financial, fiscal, and political union. The European

Central Bank has brought some temporary relief with its long-term refinancing operation and outright monetary transactions, but it is up to governments to make progress on banking union, fiscal union, economic union, and political union, and put their own situation in good order.

MARTIN HELLWIG

"Governments, Banks, and the Central Bank in the Eurozone Crisis"

Abstract. Why has Europe found it so difficult to deal with the so-called "euro crisis"? The presentation focuses on the complexity created by having a multiplicity of different types of sovereign-debt crises and banking crises at the same time; it also highlights the failure of available governance mechanisms and the lack of workable political discourse at national and supranational levels. Whereas the origins of the crisis can be found in the weakening of various governance mechanisms through the introduction of the European Monetary Union, the crisis itself has contributed to a further weakening of governance by making the European Central Bank a hostage to the weakness of banking systems. The second half of the presentation focuses on the role of banking union in the reform of European governance and on the fundamental political issues in the discussions about banking union.

RAINER KATTEL

"Baltic Austerity—The New False Hope"

Abstract. Ireland was at one time the poster child for fiscal austerity, but that country's disappointing economic performance of late has left austerity apologists searching for a new model—and the Baltic economies appear to be next in line. But Estonia, Latvia, and Lithuania are as unsuited to stand as successful models of expansionary fiscal contraction and "internal devaluation" as their Irish predecessor.

MARIA KARAMESSINI

"Employment and the Greek Crisis: A Tool for Managing Social Destruction or an Element of an Alternative Exit Strategy?"

Abstract. From the onset of the crisis, employment policy has been the main policy tool for managing rampant unemployment. This was produced by the recessionary impact of the global financial crisis on the Greek economy and the vicious cycle of austerity and recession, which has been nurtured since 2010 by fiscal consolidation and internal devaluation policies prescribed by the two Economic Adjustment Programs imposed by the troika as a condition of its financial assistance to Greece. We argue that unemployment resulting from a deep and prolonged

recession and the credit crunch experienced by firms cannot be treated with active labor market policies (ALMPs), which are classic tools for combating structural unemployment. Labor supply policies (training, apprenticeships) provide income support for the unemployed and substitute cheaper labor for regular recruitment. ALMPs targeting demand for labor in the private sector by lowering employer social contributions either contribute to maintaining jobs or affect the composition of hires in subsidized firms: they do not increase overall employment. This situation challenges the European Employment Strategy in its capacity to provide the appropriate policy directions for combating exploding unemployment in Greece and the European South, as long as it remains focused on tackling structural unemployment, and as long as EU economic policy remains committed to the doctrine of austerity and structural adjustment. At the same time, depression-level unemployment in Greece calls for an immediate change in the direction of macroeconomic and development policy to initiate growth and the reconstruction of the economy, as a prerequisite for breaking the austerity-recession spiral, exiting the debt trap, and reversing the trend in unemployment. In such context, employment policy would find the complementary role it deserves in tackling unemployment by aiming at the gradual reduction of long-term unemployment and adjustment of the workforce to the knowledge and skills requirements of the new development model.

ELIAS KIKILIAS

"Greece Is Not a Special Case: Eurozone Architecture, the Collapse of Periphery Countries, and Policy Choices"

Abstract. The view that the eurozone crisis is driven by the rapid deterioration of the competitiveness of the periphery countries is quite widespread. This, in turn, is due to the excessive labor costs in these countries during the previous decade, after they joined the eurozone. The prescriptions resulting from this diagnosis to recover competitiveness suggest the need for "structural reforms." However, since these require time, whereas the twin deficits must be addressed immediately, the emphasis is placed on internal devaluation; that is, immediate and large reduction of labor costs. The arguments presented here are the following: First, the rapid deterioration of the external deficits of the peripheral countries during the past decade is one of the main consequences of the deficient and asymmetrical architecture of the eurozone. Second, external imbalances were not a result of deterioration in the competitiveness of the international/export-oriented economic sector of the periphery countries but a consequence of a "demand shock" caused by huge capital inflows and the consequent escalation of imports. Third, increases in labor costs were not the cause but the symptom of these developments, which resulted in swollen internal economic sectors in the periphery economies. Fourth, "structural reforms" are necessary, not as a universal doctrine, but in targeted and intelligently

designed fields. Fifth, the international sectors of the periphery countries are reasonably competitive and able to respond positively to increases in foreign demand. Sixth, the increase in foreign demand for these countries should be a crucial policy concern in the eurozone, which necessarily unlocks the debate on its architecture.

JAN KREGEL

"Minsky Meets the Mediterranean"

Abstract. Does the experience of Greece since its entry into the eurozone conform to Hyman Minsky's analysis of financial fragility? Examination of the major macroeconomic variables over the period suggest sustained, if not rapid, expansion, with stable inflation as well as internal and external accounts. The period would thus seem to conform to an evolution of the economy that might generate a declining cushion of safety in the decisions taken by financial institutions and governments that created increasing financial fragility. In Minsky's original formulation, fragility could be transformed into systemic instability as the result of a policy shock such as a tightening of monetary policy that causes interest rates to rise and speculative positions to become compromised. In the case of Greece, the trigger was the announcement of the revised figures for the fiscal deficit, which produced a threefold increase in interest rates in the first six months of 2010. The declining cushion of safety can be identified in two areas. First, under the conditions of the euro, government debt is no longer sovereign, and its creditworthiness is determined by the government's fiscal position. The revised statistics were thus the equivalent to an announcement that the debt represented Ponzi rather than speculative financing positions. The hidden government deficit was thus a de facto reduction in the cushion of safety on government paper. The second area is in the behavior of the European financial institutions that invested in Greek paper, since it carried a zero risk weight under Basel rules and a small interest arbitrage gain. Thus, the action of foreign banks to drive Greek yields to increasing small spreads against German debt also represents a decline in the cushion of safety in the positions of these institutions that was insufficient to cover losses once the new fiscal position was announced. The result was a traditional Minsky–Fisher debt deflation process in which financial institutions sold position to make position, which further accelerated the decline in prices.

The denouement of this process did not, however, conform to the traditional Minsky scenario, which would have required the action of a central bank lender of last resort to stabilize asset prices, government stimulus to support domestic incomes, and the write-off of some of the existing debt. Initially, none of these responses were present, and were only subsequently applied with reticence. More markedly, instead of supporting domestic incomes to create greater government revenues to service debt, the provision of support for asset prices was provided only on the condition of fiscal austerity measures that increased the Ponzi nature of government debt.

In contrast to the crisis response in Latin America in the late 1980s and Korea in the 1990s, the required fiscal measures were made more draconian rather than more supportive of domestic growth, leading to the position that Greek government debt will never be repaid, and the only policy question remaining is how European Union (EU) taxpayers will be told that they will be responsible for the write-down of the official EU and European Central Bank support.

DIMITRI B. PAPADIMITRIOU

"Prospects and Policies for the Greek Economy"

Abstract. We analyze the economic crisis in Greece and offer policy recommendations to restore growth and increase employment. Based on the Levy Institute's macroeconomic model for Greece (LIMG), we find that a continuation of austerity policies would further decrease GDP and increase unemployment, in contrast to the optimistic projections of the International Monetary Fund, the European Commission, and the European Central Bank (the troika). We examine the likely impact of two scenarios: (1) external help from a Marshall-type plan of capital transfers; and (2) suspending interest payments on public debt and instead using an amount equal to those payments to increase government consumption and investment, which would in turn increase demand and employment. We find that the effectiveness of each scenario is crucially dependent on the price elasticity of Greek net exports, and from the results of our analysis, such elasticity is low. We also consider a policy option in which either scenario is used to implement a direct job creation program in line with Hyman Minsky's employer-of-last-resort (ELR) proposal, which seems to offer the best strategy for economic recovery, providing immediate effects on the standard of living of the Greek population while containing the effects on foreign debt.

ROBERT W. PARENTEAU

"The Austerity Trap"

Abstract. I will discuss this misdiagnosis of the eurozone problem as one of excessive fiscal deficits that largely emerged as the appropriate and necessary response to avoiding debt deflation outcomes during the global financial crisis. Instead, the real challenges in the eurozone were with growing trade imbalances and private sector debt buildup from 2000–08. The promise of expansionary fiscal consolidation, which was the "solution" proposed and managed by the troika, has proven false, as it requires special conditions that are not particularly strong in the eurozone. One condition is a rapid improvement in the trade balance, which is available in eurozone nations primarily through internal devaluation; that is, through price deflation in tradable goods. Yet falling prices and wages in tradable goods sectors will tend to erode the ability

of households and firms to service existing debt obligations. This challenge to financial stability can be compounded when fiscal consolidation is imposing higher taxes on the private sector while public spending cuts are reducing income flows to households and firms. Another, more progrowth response available under current policy constraints is to make tradable goods industries in current account deficit more competitive through investment that enhances productivity as well as product innovation. This would require public/private partnerships, as well as recycling of current account surpluses through fiscal transfers and active engagement of the European Investment Bank—little of which has proven politically feasible to date. Yet the damage done by austerity policies is evident in lost output, extremely high unemployment rates, bank loan losses, and rising social distress. Austerity is a trap, and it is time to recognize that and seek a new policy approach.

C. J. POLYCHRONIOU

"The Economics of Social Disaster: A Greek Tragedy"

Abstract. The economic catastrophe unfolding in Greece—the biggest decline of the gross national product and the highest rate of unemployment of any country in recent history—speaks volumes about the damage that the neoliberal-oriented policymakers of the International Monetary Fund and the European Union can deliver to societies via the domestic political establishment. The Greek economic crisis is partly the story of a kleptocratic state and a parasitic capitalist elite who got caught in the web of the eurozone's flawed design when the global financial crisis of 2008 hit Europe's shores. It is also the story of an economy that did not meet the prerequisites for entering an alleged optimum-currency area, nor did it make much attempt to fit in properly. But it is also the story of the general failure of the global neoliberal project, the financialization of the economy, and free-market orthodoxy. The response to the Greek crisis by its international lenders has been based on a set of failed economic doctrines, as the source of their inspiration is not social reality itself or the general well-being of nations and their citizens, but rather ideological and political factions in the pursuit of narrowly defined economic interests. Thus, a public debt crisis has been used as an opportunity to dismantle the social state, to sell off profitable public enterprises and state assets at bargain prices, and to deprive labor of even its most basic rights.

L. RANDALL WRAY

"The Fatal Flaw in the Design of the Euro"

Abstract. It is now well recognized that there is something wrong with the euro. A variety of explanations for the current crisis has been offered. Some have argued that the nations that

have been allowed to join the eurozone are too heterogeneous; from the perspective of Mundell's optimal currency area thesis, these countries did not constitute an optimal area for a currency. Others have blamed profligate Mediterraneans on the periphery of Europe—that their governments spent too much and brought on the inevitable Reinhart-Rogoff debt crisis. Some point (more correctly, in my view) to bankers run amuck—in other words, the crisis was caused by the same sort of dynamics seen in the United States, with unregulated and unsupervised bankers taking on excessive risk. Finally, many blame current account deficits—again, on the periphery—that led to excessive external debt. While conceding that there is at least some truth in most of these arguments, I will argue that the real problem is in the design of the euro system: the separation of fiscal policy from sovereign currency.

GEORGE S. ZAVVOS

"Toward a European Banking Union: Implications for the Greek Banking System"

Abstract. Both the European Central Bank and European Commission have confirmed that, while the rebalancing of the euro area has progressed, the European Union is nonetheless lacking a growth strategy. A European banking union would prove of benefit to the Southern European countries in reversing the adverse economic and financial situation and helping them exit the crisis.

GENNARO ZEZZA

"A Levy Institute Model for Greece (LIMG)"

Abstract. We present the main characteristics of a stock-flow consistent model for Greece estimated on quarterly data over the last 30 years and built to provide a "tool of thinking," in the words of Wynne Godley (the architect of such models), to explore the implications of alternative policy options for the Greek economy. Stock-flow consistent models have shown to be very effective for constructing reliable medium-term economic scenarios. The operating principle of such models is the macroeconomic identity linking the three main sectors of the economy—private sector (households and firms), government, and the rest of the world—concentrating in particular on their financial balances, which imply, in turn, the path for the net wealth or debt of each sector. We focus on the technical structure of the model, which we use in Strategic Analysis reports for simulating the trajectories of the Greek economy for the next four to five years, conditional on the assumptions about alternative economic policy options.