How To Solve The Greek Public Debt Problem

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In 2009, Greece faced three significant economic problems, a huge budget deficit, large sovereign debt, and the need for structural reforms to increase competition and productivity. In 2014, thanks to enormous sacrifices of the Greek people, the state budget has been balanced and Greece even has a primary surplus (before paying interest). Sovereign debt was reduced through the haircut of private bondholders, but remains large. Structural reforms were implemented in the labor market, and we wait for reforms in other sectors. Greece was successful in re-entering the world money markets after 4 years of exile by issuing 5-year bonds at 4.75% interest.

Nevertheless, life is still hard for the average citizen. Greece has 25% unemployment. It is imperative that we set as an immediate target the reduction of unemployment to 15% in two years. How can that be done? Only through investment. How and by whom? Despite the significant interest of large foreign investors such as China, many investors are waiting in the sidelines hoping for lower asset prices. This is quite natural during the crisis. But exactly the opposite happens during recovery – investors dash to buy assets before their prices increase. Greece has not yet convinced investors that it is at a stage of recovery. How can it convince them? Thought public investment with money raised from sale of new bonds.

Greece should issue every year for 3-4 years €5 billion per year of 5-year or 7-year bonds at an interest rate of 4-4.5% and put all the money raised in a "Development Fund." Greece should ask the large European countries (Germany, France) to put €1 billion in total to the same fund, and have common governance. The Fund's money should be invested in prioritized investment suggested by the Ministry of Development (that's one of its functions). If the Fund is created as outlined, the best possible message will be given to private investors. And, besides the message, injecting 3% of GDP in the market every year will automatically accelerate the economy and will pressure private investors to invest immediately fearing that they will be forced to buy at higher prices very soon. The only hindrance to this plan may come from the IMF that may argue that issuing bonds increases the debt and makes it not viable. Such a position would be mistaken. Investing while borrowing, Greece does exactly the opposite. It creates wealth, new work positions, it increases its GDP, and reduces the ratio of debt/GDP that the IMF considers as determinative of sovereign debt' viability. The IMF should allow Greece to make public investments, by placing them in a different category than general state expenditure, and it should have done so from the beginning of the program. Through targeted investments, Greece will increase GDP and tax revenue as well as reduce unemployment and the debt/GDP ratio.

The solution I propose has huge benefits. With 3% of GDP public investments and 1% of GDP private ones during the first year, and an additional 3% public investment in the second year and 2-3% of GDP private ones in the second year, rates in two years Greece can reach very high growth that have not occurred since the 1950s and 1960s. The target of 15% unemployment from the current 25% suddenly becomes feasible. Is there a danger? Yes, that the moneys raised from the development bonds do not get invested but rather are put in the state budget where they will literally be lost.

What else should be done for the Greek public debt? Greece and the EU needs to start immediately the discussion for its resolution, so that it is finished in the fall of 2014. Mr. Dijsselbloem's position in the last Eurogroup that more reforms are necessary before the start of the discussion on the debt is unacceptable since the EU had set the creation of a primary surplus as the only condition to start the discussion. If we wait to finish structural reforms in Greece, as Mr. Dijsselbloem wants, before the discussion starts – and, regrettably, the Greek side seems to have accepted this position during the Eurogroup (see Kathimerini 6/20/14) – this debt discussion may never happen.

So what should Greece ask from its European partners? First, to start immediately the discussion on the resolution of the Greek debt. Second, lower and constant interest rates on the debt. Third, elongation of the maturity of the bilateral loans and the loans of the European Support Mechanism to 75 years. The way the debt is written in the books of the European countries creates the possibility that they will easily accept this elongation. Additionally, the opinion that the elongation to 75 years burdens our grandchildren is entirely incorrect. Changing the maturity of the obligations of Greece is a technique that does not add new debt to our children and grandchildren – it just allows the economy to breathe and makes the debt more viable. The fourth change we need to ask from our European partners is, to the extent possible, not to pay interest for 5 years (that is, that the interest gets recapitalized) until Greece can find its way again.

I sincerely hope that all the parties will support my proposals for growth and the debt. On growth, my proposals are not for privatization, but rather for public investment, which has been historically supported in Greece by both the Right and the Left. The proposals on the debt are also in the realm that can be accepted by all. There exists an unrealistic position that Greece could "threaten" not to pay all or most of its debt to the Europeans! Even the supporters of this position should support my proposals that can be implemented today, and leave for the future, if they ever get to power, the experiment of the unilateral haircut of the debt, that has such a small probability of success as throwing three consecutive double sixes in backgammon. And, regrettably, if the empty "threat" of a unilateral haircut of the debt to the Europeans fails, Greece will find itself out of the Euro, with bankrupt banks, a deeply devalued new drachma, hyperinflation, and poverty and misery of the 1950s.

I believe that we can avoid even the possibility of this catastrophic move by following my proposals and solving the problem of the debt through development.

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