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An outline of a progressive resolution to the euro-area sovereign debt overhang: How a five-year suspension of the debt burden could overthrow austerity

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An Outline of a Progressive Resolution to the Euro-area Sovereign Debt Overhang: How a Five-year Suspension of the Debt Burden Could Overthrow Austerity*

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Abstract
The present study puts forward a plan for solving the sovereign debt crisis in the euro area (EA) in line with the interests of the working classes and the social majority. Our main strategy is for the European Central Bank (ECB) to acquire a significant part of the outstanding sovereign debt (at market prices) of the countries in the EA and convert it to zero-coupon bonds. No transfers will take place between individual states; taxpayers in any EA country will not be involved in the debt restructuring of any foreign eurozone country. Debt will not be forgiven: individual states will agree to buy it back from the ECB in the future when the ratio of sovereign debt to GDP has fallen to 20 percent. The sterilization costs for the ECB are manageable. This model of an unconventional monetary intervention would give progressive governments in the EA the necessary basis for developing social and welfare policies to the benefit of the working classes. It would reverse present-day policy priorities and replace the neoliberal agenda with a program of social and economic reconstruction, with the elites paying for the crisis. The perspective taken here favors social justice and coherence, having as its priority the social needs and the interests of the working majority.

Keywords: Euro Area; Sovereign Debt; European Central Bank; Unconventional Monetary Policies
JEL Classifications: E58, E61, F65, H12, H63

1. INTRODUCTION

Austerity policies are unable to deal with the sovereign debt overhang in the euro area (EA) and do not aim to do so. Austerity strategies use debt as a means to reinforce neoliberal reforms throughout Europe. Recession-led reforms may satisfy the interests of capital but are unable to put growth back on track, at least in the medium turn. Hence, a serious solution to the debt problem should necessarily come from debt restructuring and unconventional policies.

The case of Greece is a good illustration of why a debt haircut cannot be a solution to debt sustainability when it takes place in a deflationary environment (without protecting pension funds and individual depositors). The current level of Greek sovereign debt is not sustainable even after a significant haircut. There has been no moment in the wake of the EA crisis (and despite the several memoranda of "understanding") for Greek sovereign debt to develop even a tendency in the direction of sustainability.

Greek default disrupted global economic patterns in a double way. On the one hand, it unmasked the fatal weaknesses in the architecture of the EA, after a first phase of exorbitant and unreasonable optimism.[1] On the other hand, it was practically the first sovereign default of a developed capitalist economy, several decades after West Germany's defaults in 1948 and 1953 in the wake of World War II (see also Table 1; Buiter and Rahbari 2013: 20).[2] It smashed the belief that had gradually gained the status of being the norm in international economics: no one could imagine, even as a working hypothesis, a sovereign default of a developed capitalist economy and, in particular member of the EA.[3]

[1] Our argument about the EA crisis can be found in Sotiropoulos et al. (2013), Milios and Sotiropoulos (2010).
[2] This is probably the reason why the EA had never developed a mechanism commissioned to deal with sovereign defaults.
[3] For the greatest part of the 2000s the public sector in the countries of the so-called European 'periphery' was able to borrow money at the same cost as the public sector of Germany, UK and USA. Even in March 2008 Trichet, the ECB president, ensured that "the fundamentals of the euro area economy remain sound and the euro area economy does not suffer from major economic imbalances" (cited in Mayer 2012: 100). Inflation was the major concern of the ECB officials at that time...

Table 1 Sovereign Defaults and Rescheduling, 1975–2012

	Country	Year
Africa	Algeria	1991
	Angola	1985
	Central African Republic	1981, 1983
	Republic Côte d'Ivoire	1983, 2000, 2011
	Egypt	1984
	Kenya	1994, 2000
	Morocco	1983, 1986
	Nigeria	1982, 1986, 1992, 2001, 2004
	South Africa	1985, 1989, 1993
	Zambia	1983
	Zimbabwe	2000
Asia	Indonesia	1998, 2000, 2002
	Myanmar	2002
	The Philippines	1983
	Sri Lanka	1980, 1982
Europe	Greece	2012
	Poland	1981
	Romania	1981, 1986
	Russia	1991, 1998
	Turkey	1978, 1982
Latin America	Argentina	1982, 1989, 2001
	Belize	2012
	Bolivia	1980, 1986, 1989
	Brazil	1983
	Chile	1983
	Costa Rica	1981, 1983, 1984
	Dominican Republic	1982, 2005
	Ecuador	1982, 1999, 2008
	Guatemala	1986, 1989
	Honduras	1981
	Jamaica	2010
	Mexico	1982
	Nicaragua	1979
	Panama	1983, 1987
	Paraguay	1986, 2003
	Peru	1976, 1978, 1980, 1984
	St. Kitts and Nevis	2012
	Uruguay	1983, 1987, 1990, 2003
	Venezuela	1983, 1990, 1995, 2004

Source: Buiter and Rahbari (2013: 12)

Nevertheless, Greece is not the only EA economy that feels the overhang of sovereign debt (see the first column in Table 5 for the current levels of sovereign debt). This paper sketches a political proposal to the problem at the level of the EA from a progressive viewpoint.[4] Dealing with the debt overhang in an increasing number of EA economies is primarily a political issue. The related technical details are not politically neutral: they are integral parts of political strategies attempting to influence the outcome of the ongoing social and political struggles all over Europe. The critical parameter is thus the mobilization of labor and not the technical sophistication of an abstract solution.

Mainstream analyses (and leftwing approaches which draw upon them) downplay the political aspect of the problem. In fact, they respond to a different question. For the mainstream argument, the solution to the problem of sovereign debt should secure the reproduction of neoliberal policies that favor capital (e.g., avoid major financial events without jeopardizing the strategic interests of capital). The "solution" should not give hope to labor; it should not be careless so as to shift the social correlations of power in the "wrong" direction. The left, on the other hand, has to stress this "wrong" route ("wrong" for the interests of economic and political elites) seeking political alternatives which should have as precondition and result in the defeat of austerity to the benefit of labor. This paper puts forward an argument along these lines.

We have many times formulated our approach to the nature of contemporary "financialized" capitalism.[5] A political economy of sovereign debt has to take into consideration the simple fact that the workings of financial markets are a critical premise for the organization and reproduction of capitalist power. In this context (and quite contrary to what is usually argued even in heterodox discussions), economies with national currencies that are not used as international means of payment are vulnerable to supervision by the financial system and the aleatory events which necessarily accompany its workings. The fiscal discipline, imposed by the markets, would seem inescapable and the room for fiscal maneuvering narrow. On the other hand, the participation in a common currency area transforms the problem that now takes a more political twist. Both conditions and potentialities are different. The EA sets primarily a political context of fiscal discipline to the terms of neoliberalism because the EA monetary edifice has exactly the firepower to intervene and block the workings of international financial

[4] A proper policy proposal for Greece alone should follow the principles of the 1953 London Agreement on German External Debts: relief of the larger size of outstanding debt and a growth clause for the servicing of the rest. Nevertheless, for reasons explained below, this cannot be a viable plan for the EA as a whole.
[5] See Sotiropoulos et al. (2013; Ch. 8).

markets. The EA monetary context in its current form promotes and embeds the conservative economic agenda. The same frame could possibly be transformed into a useful means of alternative policies once the class correlations that guaranteed its current form are radically shifted.

2. THE MAINSTREAM ARGUMENT: THE FUNDAMENTAL ASYMMETRY OF SOVEREIGN DEBT MARKET

A brief discussion of the mainstream analytical frame is necessary for two reasons. On the one hand, we need to have in mind the perspective of the "opponent" so as to interpret it and properly organize the political and theoretical confrontation. The other reason is that the majority of progressive and leftwing approaches adopts, explicitly or implicitly, the mainstream analytical problematic as its point of reference.[6]

Every form of debt is typically a contractual agreement between a lender and a borrower. The former initially pays a money amount to the latter, the latter promises regular interest payments in the future (c_t) for a certain time period (n years) and then return of the whole nominal value of the contract (C). This practically means that the owner of the contract (creditor) acquires a right on a future stream of payments and the contract a present value for the same reason. In a general case, the present value of the contract is given by the following formula (r is the discounting rate):

$$PV = \sum_{t=1}^{n} \frac{c_t}{(1+r)^t} + \frac{C}{(1+r)^n} \tag{1}$$

Put simply, equation (1) gives the present value of the liability discounting all future anticipated payments. Default is by definition any *ex post* change in the stream of current and future payments on the debt contract. This change makes the contract less valuable to the creditor, reducing its present value for non-execution of the agreed payments.

In the case that the borrower is a private firm (or a household), law and related third party enforcers (including but not limited to the courts) guarantee the execution of the contractual terms. If the borrower in the international financial markets is a sovereign state, things are quite different as the third-party enforcement is typically futile. Sovereign borrowers

[6] The reader should have in mind that, while this paper does not get explicitly involved in the current debates, it is primarily a polemic.

may voluntarily choose to self-comply to the contractual terms; nevertheless, if not, there is no typical third-party enforcement on the international level. Even in the case that the debt contracts are subject to foreign law, the enforcement powers of the foreign courts are limited.[7] In the relevant literature, this is usually called fundamental asymmetry of the sovereign debt market. In the mainstream misleading analytical context (where states, firms, and households are treated as coherent agents acting on a cost/benefit basis and pursuing the optimum position) the key question is the following: why do sovereign borrowers comply with the contractual terms much more often than expected?

According to the enormous relevant (mainstream) literature,[8] sovereign borrowers avoid default and self-comply with the contractual terms because the strategic benefits from a default do not exceed the anticipated losses. There is truth in this argument. For instance, a sovereign default would heavily affect the domestic financial system, which is usually not only exposed to domestic sovereign debt but would also face serious impediments in its organic connection to the international markets (in the case of a developed capitalist economy, this implies extra financial costs for the private sector and thus serious macroeconomic consequences for employment and growth). One should also take into consideration the economic and political consequences of a default, since negotiations with the creditors take considerable time. The list of cost/benefit analysis can be quite long, but this train of thought misses the crucial factor: the very nature of contemporary capitalist power.

Cost-benefit analysis takes a concrete form only within the contemporary context of capitalist power. International financial markets do not curtail the range of state sovereignty—they reshape the contour of capitalist power.[9] The new condition of governmentality (reproduction of capitalist rule) thus takes the form of a "state-and-market" type of connection. Regardless of the results of cost-benefit calculus, the organic inclusion of the economy in the

[7] The case of Argentina is indicative enough. As it is now well known and widely discussed, the court judgment of Thomas P. Griesa determined that the Argentine government should pay the holdouts *pari passu* despite the fact that the great majority of creditors had agreed to a restructuring. The decision had its results and triggered a new mini-default, but by no means could typically enforce a policy change to Argentina.

[8] See Buiter and Rahbari (2013), Committee on International Economic Policy and Reform (2013).

[9] "Contemporary capitalism (the term "neoliberalism" is too restrictive to capture all its aspects) amounts to a *re*composition or *re*shaping of the relations between capitalist states (as uneven links in the context of the global imperialist chain), individual capitals (which are constituted as such only in relation to a particular national social capital), and "liberalized" financial markets. This recomposition presupposes a proper reforming of all components involved, in a way that secures the reproduction of the dominant (neoliberal) capitalist paradigm. From this point of view, contemporary capitalism comprises a historical specific form of organization of capitalist power on a social-wide scale, wherein governmentality through financial markets acquires a crucial role" (Sotiropoulos et al. 2013: 152).

international markets is a critical premise for the organization of capitalist rule. On the other hand, it is also clear that a recomposition of the relation to international markets (national self-sufficiency) can easily incite the most regressive and authoritarian forms of state governance, if it is not accompanied by a radical shift in the class relations of power.

3. SOVEREIGN DEBT SUSTAINABILITY: THE GENERAL CONTEXT

This section develops the above argument emphasizing the dynamics of sovereign debt. The latter can briefly be described by the following equation (for a particular time period):[10]

$$\Delta d = -s + \left(\frac{r-\gamma}{1+\gamma}\right) \cdot d + sf - \Delta h \tag{2}$$

In the above relation, s is the primary surplus as a share of GDP, r the real effective interest rate corresponding to the already-accumulated debt, γ the growth rate of real GDP, Δd the change in the public debt for the current period, sf the stock-flow adjustments, and Δh the change of the monetary base (liabilities issued by the central bank) as a ratio to GDP.[11] According to equation (2), which is a simple mathematical formula but with complex interrelations between its variables, sovereign debt can be reduced in the following typical ways (or combinations between them): (i) significant and persistent long-term primary surpluses ($s>0$), (ii) real long-term growth higher than effective interest rates ($\gamma>r$), (iii) privatizations, (iv) restructuring of the liability terms (prolonging, reducing or suspending contractual payments), writing off part of the nominal value or, finally, (v) increasing the monetary base (i.e., monetizing part of the debt). For reasons of simplicity we do not take into consideration the effect of the exchange rates on the debt dynamics (when debt is mark-to-market). Exchange rate effects are definitely important for a complete analysis of the global economic rivalries that are innate in the workings of capitalist power relations; nevertheless, their neglect does not run against the validity of our theoretical argument. We focus on the EA debt which is mostly issued in the "national" currency (euro). Exchange rate fluctuations are of secondary importance.

[10] See also Buiter and Rahbari (2013).

[11] We need to make here an important point for the analysis that follows. Central banks do have a monopoly on issuing currency (practically at no cost) while receiving interest on deposits. Issuing currency is a source of profits, named seigniorage. Seigniorage income is a form of public revenue and has increased in the wake of the 2008 financial crisis because of the unconventional monetary policies followed by central banks. In general, seigniorage profits do not regularly return to the government; they remain with the central bank as an extra hedging asset in the face of future losses.

In a typical case of an economy with high but sustainable sovereign debt,[12] economic policy should at least preclude (in the medium term) its further increase (in mathematical terms is means $\Delta d=0$). Practically, a basic condition of debt sustainability (assuming, also, for simplicity that $sf=0$ and $\Delta h=0$[13]) requires a minimum level of primary surplus given by the following equation:

$$\Delta d = 0 \Rightarrow s_{\min} = \left(\frac{r-\gamma}{1+\gamma}\right) \cdot d \tag{3}$$

For the majority of the developed capitalist economies, current projections of long-term real growth do not exceed real effective interest rates. This is clear in the first and the last two columns of Table 2.[14] In this regard, equation (3) (in particular for the EA countries in the prevailing monetary context, which is solely focused on inflation targeting with very limited room for debt monetization) defines a minimum level of primary surplus that sooner or later will become a critical fiscal condition. In the current social correlations of power in the developed capitalist economies, this condition is welcomed by the capitalist bloc, because it sets permanent pressure on the promotion and guarantee of fiscal austerity, privatization, conservative reforms of state administration, the dismantling of the welfare state and disintegration of social benefits.[15] A hypothetical economy with sovereign debt at the level of 100% of GDP ($d=1$), anticipated real growth 2% (γ=0.02; this is definitely optimistic for the short term) and a real effective interest rate 3% (r=0.03), must have as a long-term target primary surpluses of 1% as a share of GDP (s=0.01) to avoid any further increase of sovereign debt (without any change in the monetary base). For the majority of the economies in Table 2, this estimation presupposes significant fiscal adjustment and "exceptional" austerity policies, which will tend to become permanent.[16]

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[12] In the contemporary context of financial markets, there can be no safe definition of the "sustainable" debt (see Wyplosz 2011).

[13] This assumption is merely for simplicity reasons. It also applies to the EA (which is our primary focus) where no member state can individually change the monetary base. Nevertheless, it is a non-neutral simplification that may harm the generality of the analysis. Its importance can be easily seen in the case of Japan: the latter can sustain an extremely high level of debt as a ratio of GDP (over 240% for 2014) while running primary deficits. The importance of the assumption is also critical for comprehending the development of the current international conjuncture.

[14] IMF forecasts are rather over-optimistic for most of the countries in the table.

[15] Primary surpluses are not necessarily related to austerity and neoliberal reforms. Under different social and political conditions, it is possible, both theoretically and empirically/historically, for primary surpluses to be linked to welfare policies to the benefit of labor. Nevertheless, this cannot take place in the midst of a crisis.

[16] The argument takes into consideration the very long-term tendencies and not short-term fluctuations.

If the long-term tendency of real growth is to exceed the real effective interest rate ($\gamma > r$), the above minimum condition of debt sustainability could be satisfied with primary deficits. Nevertheless, this outcome does not necessarily imply fiscal relaxation and, given the current economic trends, it is quite unlikely to be experienced by a developed capitalist economy.

Table 2 Basic Fiscal Variables for a Sample of Advanced Capitalist Economies

	real GDP % change					primary surplus % of GDP		sovereign debt % of GDP		effective interest rate	HCPI % change
	2013	2014F	2015F	2016F	2017F	2013	2017F	2013	2017F	2013	2014F
Australia	2.4	2.6	2.7	2.9	3.0	-3.0	-0.5	28.8	31.4		
Austria	0.4	1.7	1.7	1.6	1.4	0.2	1.0	74.2	76.1	3.5	1.6
Belgium	0.2	1.2	1.2	1.3	1.4	0.4	1.9	99.8	96.9	3.2	0.9
Canada	2.0	2.3	2.4	2.4	2.2	-2.6	-0.9	89.1	84.2		
Denmark	0.4	1.5	1.7	1.7	1.7	0.0	-0.9	45.2	47.0	3.4	1.0
Finland	-1.4	0.4	1.1	1.5	1.6	-2.6	-1.9	57.0	61.9	1.8	1.4
France	0.3	1.0	1.5	1.7	1.8	-2.2	0.6	93.9	93.6	2.5	1.0
Germany	0.5	1.7	1.6	1.4	1.4	1.7	1.9	78.1	63.8	2.7	1.1
Greece	-3.9	0.6	2.9	3.7	3.5	1.5	4.5	173.8	153.7	2.4	-0.8
Ireland	-0.3	1.7	2.5	2.5	2.5	-3.4	3.0	122.8	116.8	4.0	0.6
Italy	-1.9	0.6	1.1	1.3	1.2	2.0	4.9	132.5	127.6	4.1	0.7
Japan	1.5	1.4	1.0	0.7	1.0	-7.6	-4.0	243.2	246.1	0.9	2.5
Netherlands	-0.8	0.8	1.6	1.7	1.8	-1.9	-0.3	74.9	73.2	2.5	0.7
Norway	0.8	1.8	1.9	2.0	2.0	9.2	5.9	29.5	29.5	3.1	1.9
Portugal	-1.4	1.2	1.5	1.7	1.8	-0.7	2.8	128.8	119.1	3.4	0.4
Spain	-1.2	0.9	1.0	1.1	1.2	-4.2	0.4	93.9	104.3	4.0	0.1
Sweden	1.5	2.8	2.6	2.5	2.4	-0.8	0.4	41.4	35.7	1.7	0.5
Switzerland	2.0	2.1	2.2	2.0	2.0	1.1	1.9	49.4	44.3		0.5
United Kingdom	1.8	2.9	2.5	2.4	2.3	-4.5	1.4	90.1	90.7	3.5	1.9
United States	1.9	2.8	3.0	3.0	2.9	-4.1	-1.9	104.5	105.6	3.7	1.7

Sources: IMF and AMECO (August 2014, F = forecast)

In general, primary budget surplus as a share of GDP is a rather inflexible magnitude (see Table 3). A rapid and radical shift requires significant changes in the overall reproduction of labor power. Primary surplus relies on the relationship between public revenue (taxation) and expenditure.[17] As long as the social correlations of power remain dramatically to the benefit of capital, public revenue hinges on the taxation of labor incomes and the reduction of public expenditure and social benefits (it may also be against economic growth, limiting public

[17] We do not take into consideration the seigniorage profits of the central bank that return to the general government budget.

investment). Every fiscal adjustment, in particular when it takes place in a midst of a crisis, is an (direct and indirect[18]) attack against labor. In principle, the sustainability of debt can by no means rely on fiscal adjustment. On the contrary, a fiscal adjustment in the midst of a crisis can only cause deterioration in the dynamics of debt.

Table 3 Components of Fiscal Budget in Several Developed Capitalist Countries (% of GDP)

	Total revenue General government			Current tax burden Total economy			Curent taxes on income and wealth			Total expenditure General government		
	2000	2010	2013	2000	2010	2013	2000	2010	2013	2000	2010	2013
Belgium	49.0	48.7	52.0	46.6	45.3	47.6	17.0	15.5	17.1	49.1	52.6	54.7
Denmark	55.8	55.0	56.2	50.1	48.4	50.4	30.3	29.6	31.8	53.7	57.7	57.1
Germany	46.2	43.7	44.7	42.7	39.2	40.2	12.8	11.0	12.2	45.1	47.9	44.7
Ireland	36.1	34.9	35.9	32.5	29.4	31.0	13.4	10.5	13.2	31.1	65.5	42.9
Greece	43.4	40.4	45.8	36.6	33.9	36.3	9.7	8.0	9.8	47.2	51.4	58.5
Spain	38.2	36.7	37.8	35.1	33.7	34.3	10.2	9.5	10.3	39.2	46.3	44.8
France	50.2	49.5	52.8	45.8	44.3	47.6	12.0	10.5	12.4	51.7	56.6	57.1
Italy	45.0	46.1	47.7	41.7	42.6	43.8	14.3	14.6	15.3	45.9	50.5	50.6
Cyprus	34.7	40.9	40.3	29.6	35.5	34.6	11.1	11.1	11.6	37.1	46.2	45.8
Netherlands	46.1	46.3	47.3	40.6	39.4	40.1	11.6	12.0	10.9	44.2	51.3	49.8
Austria	50.1	48.3	49.7	45.1	43.9	45.1	13.1	12.8	13.7	51.9	52.8	51.2
Portugal	38.3	41.6	43.7	33.6	34.7	37.8	9.5	8.8	11.8	41.6	51.5	48.7
Finland	55.4	53.0	56.0	47.1	42.4	45.4	21.1	16.0	16.9	48.3	55.8	58.5
Sweden	58.7	52.3	51.5	52.0	45.9	45.0	22.5	19.2	18.5	55.1	52.3	52.9
United Kingdom	39.9	39.8	41.3	37.5	36.6	37.1	16.3	15.4	14.9	36.4	49.9	47.1
Norway	57.7	55.6	54.9				20.0	20.7	19.1	42.3	44.6	44.0
Switzerland	35.2	34.1	34.3				14.7	14.7	14.8	35.6	33.9	34.3
United States	34.5	30.6	32.6	28.3	24.1	26.1	14.5	10.4	12.7	33.7	42.6	38.8
Japan	31.3	32.4	33.5	26.9	27.9	30.0	8.7	7.8	8.4	38.8	40.7	42.5
Canada	44.1	38.5		35.7	31.2		18.2	14.8		41.1	44.1	

Source: AMECO (August 2014)

The Greek example is the most striking. It makes clear that, contrary to the majority of relevant arguments (from within and outside of the left), austerity policies in the EA are not irrational. Their aim was never to tackle sovereign indebtedness. They used the latter as a means to promote and embed neoliberal reforms at all levels of the economy and society, having as an ultimate goal the radical reframing of the social reproduction of labor (wage, social benefits,

[18] An overall reduction in demand squeezes wages.

healthcare, pensions, etc.). In other words, the austerity agenda is a strategic choice and a critical political condition for embedding neoliberal social regulation and the disintegration of labor anticipations for a less unequal social regime.

Equation (4) below indicates a political condition that reflects existing class correlations. It presupposes the intermediation of an important latent term for its reproduction: the financial system. We will attempt to summarize the way markets oversee and discipline public finance, providing a different interpretation of canonical mainstream reasoning.[19] Exercising their monopoly to collect taxes (with given levels of overall expenditure), sovereign states anticipate a future stream of primary surpluses S_t. To meet their budget requirements they can borrow from the markets issuing their own liabilities. In general, current outstanding debt D could be considered sustainable (without taking into consideration any related monetization[20]), only if it is covered by the present value of future primary surpluses over a very long-term period (i is a hypothetical discounting rate):[21]

$$D-\sum_{t=0}^{\infty}\left[\frac{S_t}{(1+i)^t}\right]\leq 0 \tag{4}$$

If properly interpreted, the above mathematical formula (which is usually taken as basic in mainstream discussions) captures at an abstract level the workings of financial markets in relation to sovereign debt dynamics. In the context of a particular representation of capitalist reality,[22] financial markets quantify the anticipated results of future fiscal policies (attempting to foretell future results of class antagonisms, given current correlations of power) and compare them with the current level of debt.

Nevertheless, equation (4) is just an abstract and a preliminary approach to the problem of debt sustainability. In its own right, it is inadequate for a thorough understanding of the reality of financial markets. The following example will help us see why. Assume that an EA member state has a sovereign debt of 200% of GDP but with very long-term maturities. Assume also that the first maturity of this debt is no sooner than 50 years from now. Until then the total public expenditure contains primary expenditure and interest payments without any debt rolling-over. Practically, for a considerable period of time the sovereign debt exists only through its

[19] For a general argument of the workings of contemporary financial system see Sotiropoulos et al. (2013).
[20] The assumption of no-debt monetization is, by and large, a vital condition for the neoliberal form of the financial system. The fact that we do not take it into consideration in our analysis does not modify our general conclusions.
[21] For a summary of relevant discussions see Wyplosz (2011).
[22] Our argument on the contemporary nature of financial markets can be found in Sotiropoulos et al. (2013).

regular interest payments. The government could in principle issue bonds of a very high maturity and thus the criterion of sustainability will not be the size of *D* in equation (4) but the ability of the government to meet interest payments. In that case, equation (4) should be modified in order to take into account the time distribution of interest payments and debt maturities along with the liquidity needs of the government. For simplicity reasons we will continue the discussion using equation (4) as a reference. Despite its analytical inadequacy, it will still help us make a generic theoretical point.

Financial markets quantify the anticipated future results of fiscal (and monetary) policies and "interpret" whether the debt is sustainable or not. Obviously, all these estimations of future results of social antagonisms and economic events cannot be safe and stable. It is pointless to expect a secure definition of debt sustainability from equation (4). Market agents' estimations may take the usual probabilistic form but are highly erratic and unstable in the face of the aleatory events which necessarily accompany the global conjuncture of political and economic rivalries and contradictions. Any estimation about the future is primarily an interpretation of capitalist reality from a particular ideological point of view. The critical factor in the process of financial valuation is not the erratic character of agents' anticipations, but the stable and unified representation problematic that signifies and coheres agents' hypotheses, background for a thorough neoliberal fiscal discipline.

Returning to the simplified context of equations (3) and (4) and having in mind the above argument, we could say that their workings are complementary. The valuation (and thus the particular interpretation of class struggle) offered by (4) is a critical condition for the reproduction of (3) under neoliberal logic. Put differently, the austerity implied by (3) could not be secured to the interest of capital in the absence of the workings of financial markets. Equation (3) is an immediate outcome of equation (2), which describes the historical dynamics of sovereign debt. Both (3) and (2) are backward-looking. The historical changes in their terms are "linear'" without any unexpected surprises. Equations (2) and (3) cannot explain liquidity and solvency crises when they suddenly break out. On the other hand, equation (4) is forward-looking. It follows a different temporality. The condition implied by (4) translates into quantitative estimations of the future economic and political dynamics, always in the context of a particular problematic. Indeed, it is the latter (given the concrete outcomes of the conjuncture) that guarantees the subordination of (3) to the strategies of capital.

The monetary framework of the EA (with the predominant role of the ECB) is able to intervene and modify the workings of equation (4) (changing the relationship between γ and r). At the same time, the EA is not a sovereign entity with the attributes of a capitalist state. The only governmentality mechanism that can successfully guarantee the interests of capital is the setting of economic strategies that do not interfere with the condition of (4), being, thus, complementary to the markets. This is the shortcut of the long history of post-2008 policy decisions by the European authorities. European responses have always been incomplete (by design) to drastically deal with the ongoing crisis because only then could markets play their critical role in the promotion of the conservative agenda (existing contradictions in the European summits and institutional delays are secondary aspects that cannot explain anything). They will definitely remain incomplete as long as they do not reach a serious political resistance. Hence, what we experience is not a sequence of mistakes, as is usually argued, but the workings of a concrete governmentality standard that is particularly effective for the interests of capital.

The bottom line of this section is the following. A developed capitalist economy, which presupposes an organic link to the international distribution of labor for its reproduction, can secure a proper fiscal space for welfare policies[23] only if the effectivity of (4) upon (3) somehow relaxes. That is, only if the overall setting of fiscal policy is relatively independent of financial valuation.

4. THE GENERAL TERMS OF THE QUESTION[24]

It is obvious from the above argument that deflationary fiscal adjustment cannot reduce a high sovereign debt. Persistent primary surpluses are definitely self-defeating strategies. The same problem cannot be tackled by privatizations, although debt overhang can be used to promote the sale of public assets to the private sector. The left ought to be strategically against privatizations, having at the same time as an ultimate target the gradual historical replacement of "state control" by democratic forms of social control (unfortunately this type of discussion has not been adequately developed within the left). Nevertheless, even from a purely "technical" point of view, a massive selling off of public property in the midst of a crisis is definitely to the

[23] This is a necessary but not sufficient condition. For instance, while effective interest rates remained for Greece extremely low before 2008, neoliberal strategies were in place. Sovereign debt was not reduced despite high growth rates because of the low taxation of capital and wealth (see Sotiropoulos et al. 2013, part IV).
[24] This section draws upon Pâris and Wyplosz (2013).

benefit of business interests while it negatively affects public creditworthiness by reducing public assets (which are a safe form of collateral). All in all, in most European countries with high sovereign debt levels, sales of public assets are not enough for a significant reduction of debt (see Pâris and Wyplosz 2013).

Therefore, disengagement from the austerity trap, which is imposed by high sovereign debt, can only be achieved through unorthodox solutions, that is, through policies that affect the three basic variables of equation (1), thereby reducing the present value of debt: the interest payments c_t, the maturity period n, or the nominal value of debt C. In other words, these are interventions that bring about either more favorable payments or a haircut of the nominal debt burden. We need to stress four important points.

First, every reduction in the present value without a haircut of the nominal value C may be a partial relief but does not strategically relax market supervision (that is, the workings of equation 4).[25]

Second, an important factor that we should have in mind is the key role of sovereign liabilities (of developed capitalist economies) not only as a basis for financial leverage but also as a raw material for many complex financial products—a crucial element for the liquidity of the shadow banking sector, and a main asset of institutional investors (pension funds etc.). Every significant change in the present value of sovereign liabilities cannot be a solution to the current debt overhang because it transfers the problem to the financial sector and institutional investors and, thus, back to the public budget. It can easily trigger a new global financial crisis, as well. One could suggest a selective haircut of the sovereign debt held by the private non-financial sector, but the size of the necessary haircuts would have severe macroeconomic consequences for growth and employment. At the same time, as mentioned by Pâris and Wyplosz (2014), households and non-financial corporations no longer hold significant part of sovereign debt for most of the EA economies (see Table 4).

[25] Growth indexed bonds fall to this category. Given the size of the problem and the economic structure of the EA, they cannot offer a genuine alternative to austerity.

Table 4 Holders of Public Debts, 2014

	non-resident	non-financial corporations	financial corporations	households
Belgium	46.5	1.9	49.9	2.4
Germany	52.9		38.0	0.0
Estonia	64.0	1.7	34.2	0.0
Ireland	63.4	0.1	27.4	9.1
Spain	38.1	2.5	57.5	1.9
France	55.7	1.2	42.9	0.2
Italy	35.1	1.8	53.9	9.2
Luxemburg	1.7		95.8	
Malta	5.8		60.8	31.7
Netherlands	52.6	1.3	45.1	1.0
Austria	73.6	4.7	21.1	0.5
Portugal	66.1	1.5	28.8	3.9
Slovakia	47.4	1.1	51.4	0.0
Finland	82.1	2.8	14.5	0.6

Source: Pâris and Wyplosz (2014: 12).

Third, there is currently no political support in the EA for major fiscal transfers to tackle the problem. This would require federal institutional structures of a single nation-state, like the US. Moreover, since the debt problem concerns more or less most of the EA economies, fiscal transfers cannot be an overall solution; they would just recycle liabilities among EA government budgets. Partial transfers should not be excluded, but in the current circumstances their size could not be enough to tame the sovereign indebtedness and stop austerity.

Fourth, traditional open market operations are a useful monetary tool and should play a more important part in ECB market interventions.[26] Nevertheless, they cannot deal with the problem for the highly indebted states. Open market operations may improve the relationship between growth and the interest rate in equation (3) but leave public finance no less exposed to the workings of financial markets (being unable to reduce the nominal debt burden *C*). At the same time, as mentioned by Pâris and Wyplosz (2013) and by De Grauwe and Ji (2013), open market operations enhance the profits of the ECB to the benefit of its major shareholders, triggering transfers to the "wrong" directions.

[26] This is a widely shared opinion even among mainstream analysts, in particular after Italy was hit by the crisis.

There is only one major and meaningful alternative left to bury austerity and kick-start growth at the EA level: a significant reduction of the nominal burden of debt C in most of the EA economies, at least of the part of it that matures in the short run (the next 5–6 years).[27] In other words, we need a plan that disintegrates the effectivity of equation (4) upon (3), taking into account the above four points. It goes without saying that one additional limitation is the institutional frame of the ECB and the related limited room for debt monetization. This limitation does not just reflect the current correlation of social powers in the EA but summarizes one of the most fundamental conditions of the neoliberal regulation. The only sufficient plan for a radical progressive and democratic alternative is thus a major shift in the role of the ECB. The ECB is the only institution that can easily implement on a massive scale critical interventions in the sovereign debt market. It practically faces no solvency constraint and cannot go bankrupt. It enjoys unique credibility which hinges partially upon its ability for self-recapitalization (i.e., to write checks to itself).[28] In fact, the ECB could easily cut down on the effectivity of financial markets, reorganizing the relationship between long-term real growth γ and long term real borrowing cost r to the benefit of welfare state policies.[29]

[27] All our basic scenarios below take into consideration the time-distribution of the liquidity needs of all EA governments.

[28] In the wake of the crisis, monetary policies in most of the advanced capitalist economies are widely seen as "unconventional." This makes the ECB unconventional in the double sense. First, the ECB is an unconventional central bank in its origin, being without the backing of a uniform fiscal authority. The fundamental conception of the EA authorities is that focusing on inflation is the most efficient way to pursue full employment, fiscal stability, and financial stability. Every attempt to allocate more responsibilities to the central bank would "politicize" it, undermining its effectiveness. Short-term interest rates are acknowledged as the key monetary policy instrument. Second, the ECB, like other central banks in the wake of the crisis, has been engaged in "unconventional" monetary policies, adopting the much wider range of instruments made feasible by its balance sheet. Nevertheless, unconventional monetary policies can be effective only when executed by conventional central banks. This describes the trap that the ECB has fallen into. The ECB is called on to take unconventional action while lacking the institutional standards tools of conventional central banking. The ECB has expanded its balance sheet by taking on long-term refinancing operations. Practically, these are liquidity ejections into the financial sector equivalent to the quantitative easing pursued by the Fed and the Bank of England. The only difference is that unlike the latter, the ECB has very tight limits in its purchase of government bonds. Hence, unconventional monetary policies in the EA take the form of repos operations for short and medium term time windows (LTRO, OMT).

[29] Not only does interference with the workings of financial markets affect r, but most importantly allows shifts in the structure of government budget, changing the relation between welfare expenditure and the taxation of capital. Nevertheless, we should stress once more that our argument describes necessary but not sufficient conditions for alternative fiscal policies.

5. THE BASIC IDEA

Facing the recessionary results of austerity and debt overhang in the EA, a growing number of mainstream economists and policy makers have started spelling out the forbidden word: ECB. The recent policy proposal by Pâris and Wyplosz (2014) for a "Politically Acceptable Debt Restructuring in the Eurozone" (PADRE) is indicative of the overall shift. The point of the authors is that, to end the EA crisis, debt should be buried forever (see also Pâris and Wyplosz 2013).

The basic idea is quite simple: the ECB should become a "proper" central bank, intervening without limit in the sovereign debt market. This debt monetization at a large scale (in the basic scenario, ECB would be buying about 4.5 trillion euros) is likely to be inflationary (of course, the authors also admit that in the current deflationary economic environment debt monetization is not a bad idea at all). The ECB will have to proceed with corresponding sterilization actions, borrowing from the private sector to withdraw "excess" liquidity. In this case and given the undisputable credibility of the ECB, the actual borrowing cost for the public sector would be equal to the borrowing cost of the ECB. A reasonable long-term estimation of this cost could be an annual 3%–3.5%.

Pâris and Wyplosz suggest a basic scenario in which the ECB buys from the market 50% of the sovereign debt of the 18 EA economies (in the end of 2013 this amounted to about 4.5 trillion euros). Each country participates in the mechanism proportional to their adjusted ECB capital shares. The ECB transforms this debt to zero-interest-rate perpetuities and issues notes of the same size (practically, these notes are a form of eurobond) to absorb inflationary pressures. The cost for the ECB would be equal to the interest payments on its notes held by the private sector. The authors estimate that in the very long run the losses of the ECB could be covered by seigniorage profits (if the average EA growth rate is stabilized above the level of interest rates).

We will not discuss the particular details of the above proposal. It is indicative of the firepower of the ECB. In their analysis, the authors do not care so much about the coverage of the ECB losses. They are confident that overall economic conditions will soon benefit from the major debt burying: the resulting growth will *ex post* guarantee the success of the plan. Nevertheless, in their basic scenario there is one significant weakness: insisting on the principle of proportionality and non-fiscal transfers between EA economies, the authors end up with a major intervention by the ECB which does not drastically tame the debt overhang in most of the

economies that face the biggest problem. For instance, in their basic scenario, Greek sovereign debt remains at the level of 106% of GDP after the suggested reduction, and the Italian and the Irish sovereign debt wind up just above 80% of GDP. Hence, a radical response to the problem in the most indebted countries requires additional write-offs and/or significant fiscal transfers. These are exactly the outcomes that the authors initially tried to avoid in their proposal. The rest of the paper deals with this weakness.

6. AN ALTERNATIVE PROPOSAL

In our alternative proposal, the ECB acquires the amount of sovereign debt of each EA country that exceeds 50% of GDP and transforms it to very long-term zero-coupon bonds. Taking as a benchmark the figures of sovereign debt at the end of 2013, our estimates are shown in Table 5. The first column presents sovereign debt levels at the end of 2013, the second column debt levels after the intervention of ECB, and the third column the straightforward initial debt reduction. Each EA country agrees to buy back from the ECB the zero-coupon bonds *when* their values will have been reduced to 20% of GDP, jointly accepting a (nominal) discounting rate e of 1%. The fourth column shows average anticipated nominal growth rates (based on current OECD projections), and the sixth column the years to final buyback for each country.

The key point of our argument draws upon the conclusion of Section 3. For every EA economy, the undertaken debt by the ECB (the threshold of 50% in our basic scenario can be altered) grows with a yield e lower than the long-term growth g ($g>e$). Hence, this part of debt will be gradually diminishing in relation to GDP. The time until the buyback is different in every EA country because the level of debt held by the ECB and the relationship between g and e are different. This type of agreement seems like a *sui generis* long put option in the hands of ECB. The basic difference between our proposal and that of Pâris and Wyplosz is that the initial intervention of the ECB reduces sovereign debt to low and sustainable levels for all EA economies without any need for extra action (haircuts) or fiscal transfers. Our proposal can take many alternative versions but in its current form indicates the tremendous debt management capability resulting from a radical shift in the ECB regime.

Table 5 The Alternative Proposal

	initial debt 2013		post-restructuring debt		debt reduction		expected long-term	years until
	€ billion	% of GDP	€ billion	% of GDP	€ billion	% of GDP	nominal growth g (%)	buy back
Estonia	2	10.0	2	10.0	0	0.0	5.0	0
Latvia	9	38.1	9	38.1	0	0.0	4.5	0
Luxembourg	11	23.1	11	23.1	0	0.0	4.0	0
Malta	5	73.0	4	50.0	2	23.0	3.5	10
Netherlands	443	73.5	301	50.0	142	23.5	4.0	10
Austria	233	74.5	157	50.0	77	24.5	3.7	10
Slovenia	25	71.7	18	50.0	8	21.8	3.8	10
Slovakia	40	55.4	36	50.0	4	5.4	4.0	10
Finland	110	57.0	97	50.0	13	7.0	3.7	10
Germany	2147	78.4	1369	50.0	778	28.4	3.1	17
France	1925	93.5	1030	50.0	895	43.5	3.8	28
Spain	961	93.9	511	50.0	449	43.9	3.5	32
Belgium	387	101.5	191	50.0	196	51.5	4.0	32
Cyprus	18	111.7	8	50.0	10	61.7	4.0	38
Ireland	203	123.7	82	50.0	121	73.7	4.3	40
Portugal	214	129.0	83	50.0	131	78.9	3.8	50
Greece	319	175.1	91	50.0	228	125.1	4.2	58
Italy	2069	132.6	780	50.0	1289	82.6	3.4	60
Eurozone 18	9121	95.0			4,343	45.2		

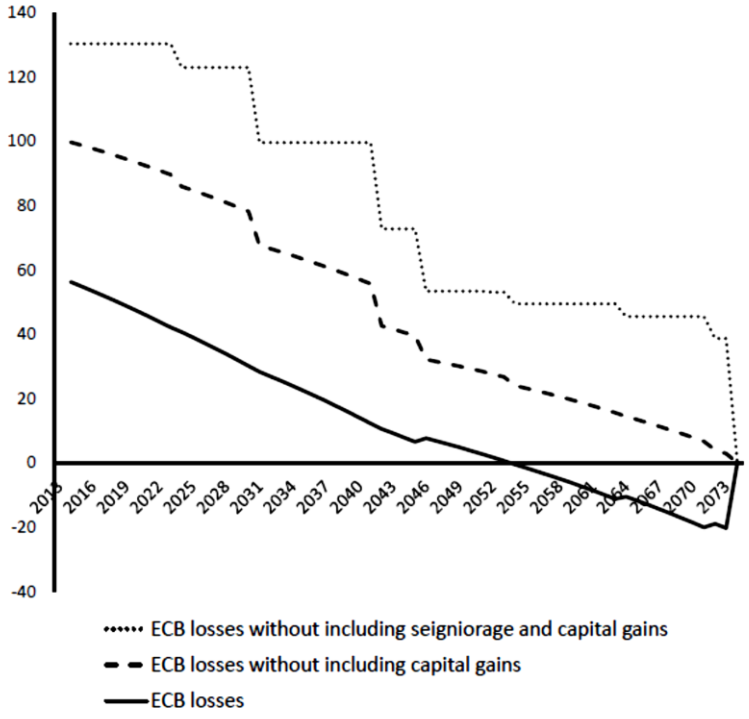
Notes: In our calculations we have assumed a discounting interest rate e= 1% for the zero coupon bonds, 3% borrowing costs over time for the ECB, long-term inflation π = 2% and the EA long-term real growth rate γ = 1.5%. The anticipated long-term nominal growth rates have been taken from the OECD (2014). In the calculation of seigniorage profits, we follow Buiter and Rabhari (2012) and Pâris and Wyplosz (2014). According to the calculations of the latter, the ECB currency in circulation at the end of 2013 was €927 billion.

In our calculations, the ECB completely sterilizes its initial debt purchases by borrowing the same amount from the private sector. We assume an average interest rate of 3%. However, the size of actual losses will be lower than the annual interest payments because the ECB will be having (i) capital gains from the zero-coupon bonds it holds, and (ii) annual profits from seigniorage. In our basic scenario, the EA economies withdraw from their share of ECB seigniorage profits *if* and *as long as* the ECB holds part of their debt.[30] Estonia, Latvia and Luxemburg have initially sovereign debts lower than the 50%-threshold and thus do not

[30] In our proposal there are no direct fiscal transfers and no additional tax burden for any EA economy. Of course, the ECB uses its seigniorage income to cover the losses from interest payments, but not necessarily in relation to the country shareholdings. This suggests some minor indirect transfers between the seigniorage profits shares for as long as each country participates in the ECB debt management project.

participate in the ECB debt management mechanism we describe. They will not sacrifice their part of the seigniorage income (the total amount is relatively low). Malta, the Netherlands, Austria, Slovenia, Slovakia and Finland initially have a debt higher than 50% but either lower than 70% or just over 70%. While all these countries can in principle buy back their debt before the lapse of a decade, in our basic scenario we assume that they stay with the mechanism for ten years (enjoying its beneficial terms). Figure 1 shows the anticipated annual losses of the ECB. Annual losses are not significant given the size of the ECB balance sheet. They do not exceed €60 billion per year while they decrease with time; from the beginning of the 2050s, the ECB will stop having losses. Total cumulative losses for a period of six decades will not exceed one trillion euros. Given the current economic shape of the EA, the ECB needs not sterilize the total amount of zero-coupon bonds. Therefore, the actual losses will be even lower. These figures are not unthinkable. During the crisis, the ECB balance sheet increased by 50%, from €1.2 trillion in 2007 to €2.4 trillion at the end of 2013. The actual costs of our proposal are much lower than these figures.

Figure 1 ECB Annual Estimated Losses in our Basic Scenario
in Billion Euros (Losses with Positive Sign)



The solution we present here is multi-parametric in the sense that the "technical" amendments could be greatly extended. Our scenario indicates the results of a major ECB intervention. The latter could easily curtail the effectivity of financial markets, securing a vital fiscal space for the development of progressive anti-austerity policies (always as a necessary but not sufficient condition). In our proposal, the ECB undertakes the long-run management of a significant part of the outstanding sovereign debt without any strategic direct fiscal transfers and without any haircut.[31]

7. ALTERNATIVES AND EXTENSIONS

We will not go through all the details of the above scenario, but the reader should keep its strategic message: without large-scale fiscal transfers, the ECB could annihilate the sovereign debt overhang and bury the austerity in EA economies at a manageable cost. The time period for the final debt buyback differs for each EA country, being the result of several "idiosyncratic" assumptions, the most important of which are: the average long-term anticipated growth rate, the magnitude of debt that exceeds the threshold of 50% of GDP, and the value of the discount interest rate (in our scenario, it is the same for all EA countries). In some cases, the time horizon may seem long (i.e., 60 years for Italy, 58 years for Greece, and 50 years for Portugal in our basic scenario). Nevertheless, the issue is of secondary importance: the ECB will have stopped making losses, and countries that exit the mechanism will stop making any contribution.

The above scenario in its current version offers a strategic response to the debt overhang and the related austerity. However, a concrete and specific solution has to take into consideration the time structure of debt servicing. The latter should be also a critical point for every progressive plan. For instance, an extra 50% haircut of the Greek sovereign debt (regardless of the creditor: private sector, EFSF, IMF, EA governments) reduces interest payments and refinancing needs for 2015–2019 from €80 billion to €40 billion, that is, by €10 billion annually. This means that even after this significant write-off, the Greek government must either run primary surpluses of 4% of GDP or borrow extra money. Greece is not an exception. Over 50% of outstanding debt matures within the next 5 years in Italy, Spain, France,

[31] The paper offers the general sketch of our proposal. It does not get into the practical details of its implementation. This is a different discussion that for simplicity reasons and the economy of space we leave it out of our current study.

Netherlands and Belgium (we do not take into consideration short-term liabilities). This means that even a considerable write-off might not suffice to negate austerity measures in the next decade.

This section presents an alternative, dealing with the time dimension of government liquidity needs. Moreover, it drastically reduces both the ECB losses and the overall time horizon of the plan, while it creates the necessary fiscal space to bury austerity at a European level. We briefly present our argument in three consecutive scenarios.

In Scenario 0 (see Figure 2) we assume that there are no significant changes in the fiscal policy of EA economies until 2020, while thereafter, governments will be able to achieve primary surpluses between 0.5% and 1% of GDP.[32] This is a "business as usual" type of outcome. In this scenario, given the currently anticipated growth rates and interest rates, the target of reducing sovereign debt to 60% of GDP by 2030 will be missed by all EA countries; on the contrary, sovereign debt will be further increased. This result is presented in Figure 2. All EA economies will be struggling with an unfavorable relationship between growth rates and interest rates. As a result, sovereign debt will not cease to grow in most cases, despite strong austerity policies (with the exception of Netherlands, Estonia, Slovakia and Belgium).

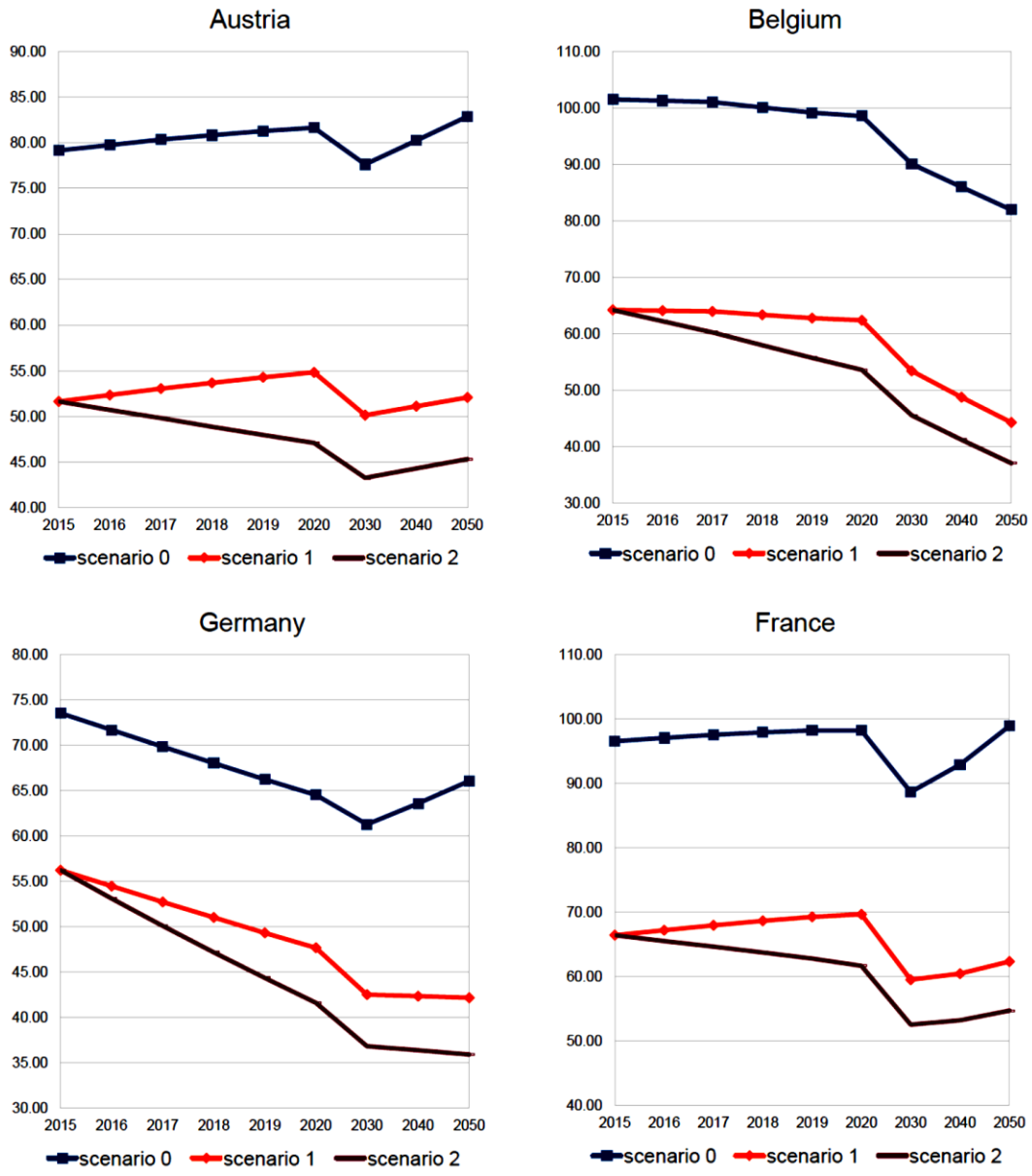
As a first alternative to the above scenario, presented in Figure 2 as Scenario 1, the ECB undertakes (and transforms into zero-coupon bonds) for the next five years, 2016-2020, the redemption of maturing debt securities along with the corresponding interest payments. We estimate that this amounts to 55% of outstanding debt for every country. The ECB acquires the debt at its nominal value. For the EA countries that have already received loans from the Troika, our estimations include both negotiable and "institutional" debt (debts to other EA states, debts to the EFSF, ESM and IMF). This straightforward debt relief will also affect long-term interest rates after 2021, reducing them by 0.3%–0.5% (this is a rather modest estimate in relation to the OECD assumptions). For highly indebted economies that will also face higher liquidity needs, we assume that the same effect will be 0.3% from 2016. In our Scenario 1 all EA economies can be part of the agreement regardless of the size of the debt. They can withdraw from the mechanism after 2030. As we can see in Figure 2, debt dynamics follow a strikingly different pattern from Scenario 0. This will also increase the fiscal space for alternative economic

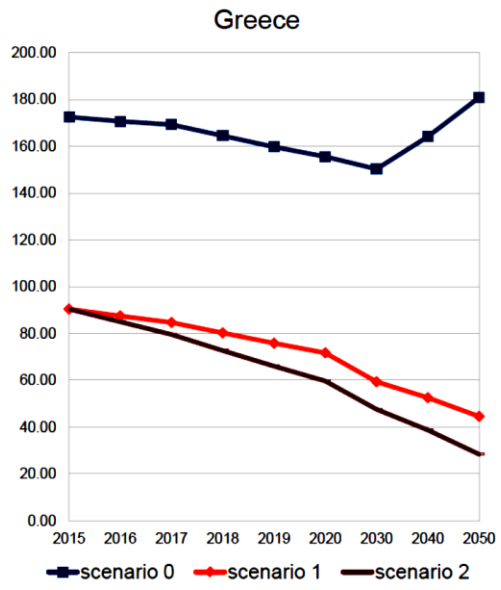
[32] France recently revised its future fiscal deficits acknowledging that they will be higher than agreed or expected. This means that our assumptions in relation to the debt dynamics are rather optimistic: the future results of current austerity policies will be even worse.

policies. Governments will buy back debt from the ECB when it reaches 20%. Table 6 shows the estimated time in each case. All other assumptions are the same as those in Section 6.

Another interesting extension of Scenario 1, described as Scenario 2 in Figure 2 (always within the same economic problematic to bury debt and austerity), could be as follows: for the same immediate period (2016–2020), the ECB could also undertake interest payments that correspond to the remaining debt of the EA economies (i.e., the debt that remained after the swap of Scenario 1). Hence, the ECB will acquire and capitalize in the form of zero-coupon bonds debt maturing in the years 2016–2020 and *all* interest payments of the same period. In other words, the debt burden will be suspended for five years. Debt dynamics are further improved in relation to Scenario 1. Contrary to the "business as usual" austerity-led Scenario 0 favored by present European policies, scenarios 1 and 2 significantly reduce sovereign debt and increase the fiscal space for alternative economic policies. In other words, they provide the necessary grounds for the defeat of the austerity policies. The debt buyback period remains relatively longer for Greece, Ireland, Italy and Portugal, but shorter than the scenario presented in Section 6, as shown in Table 6.

Figure 2 The Dynamics of Public Debt According to Scenarios 0, 1 and 2.
(Sovereign Debt as % of GDP)




Greece
200.00
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160.00
140.00
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60.00
40.00
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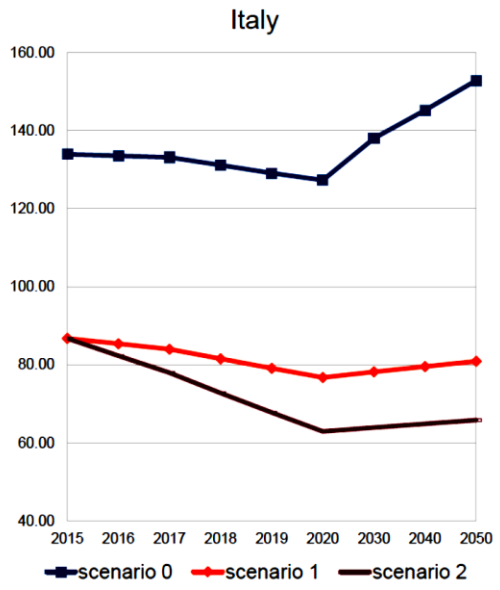
0.00
2015 2016 2017 2018 2019 2020 2030 2040 2050
scenario 0
scenario 1
scenario 2


Italy
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2015 2016 2017 2018 2019 2020 2030 2040 2050
scenario 0
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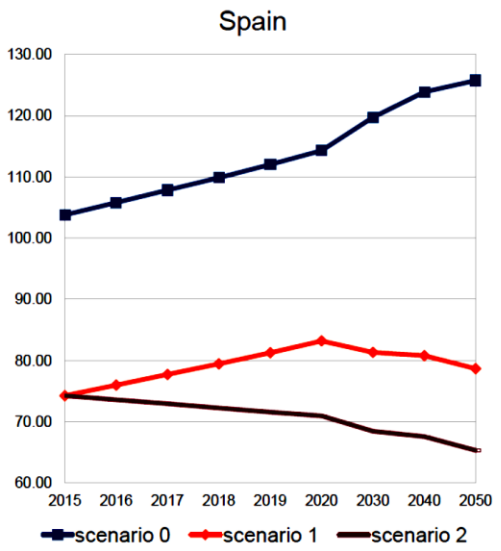
scenario 2


Spain
130.00
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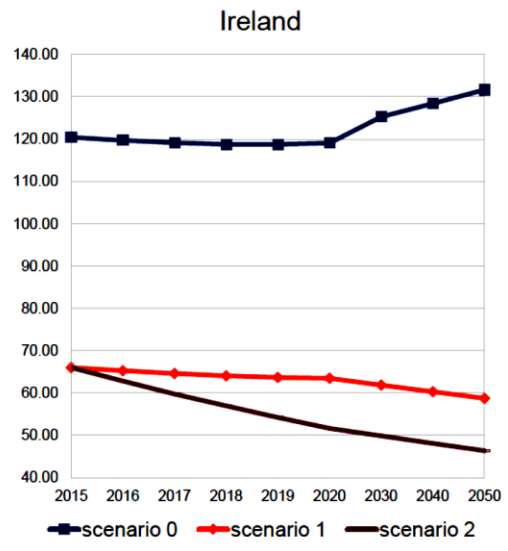
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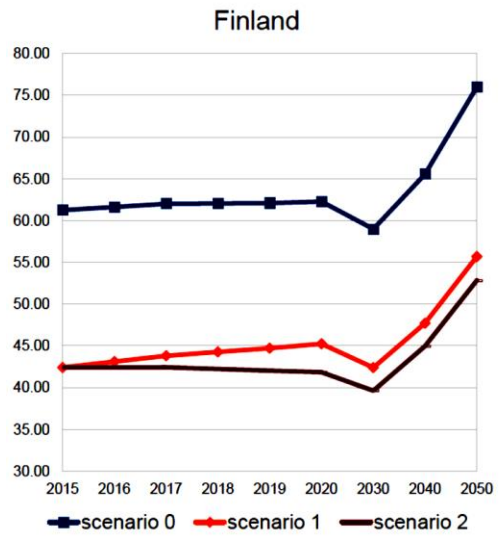
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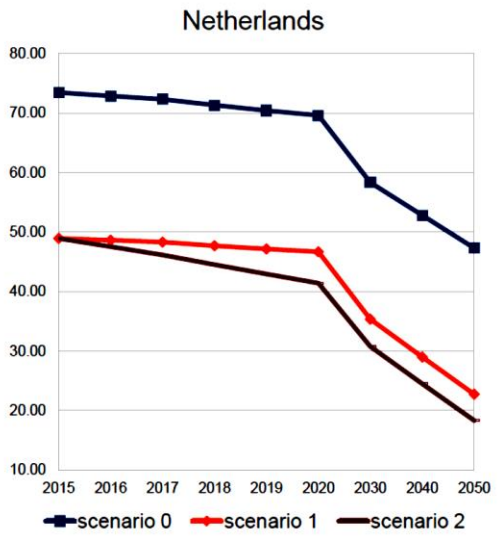
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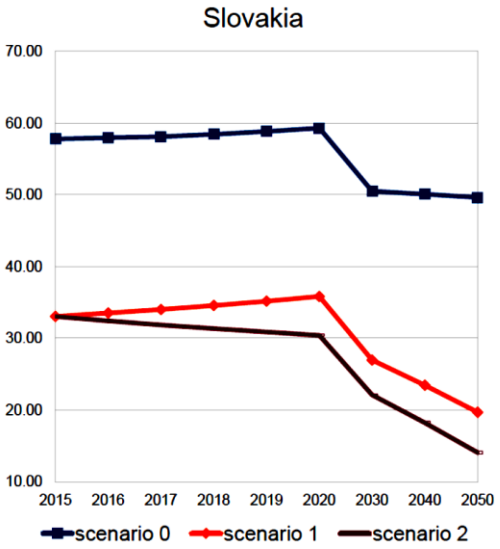
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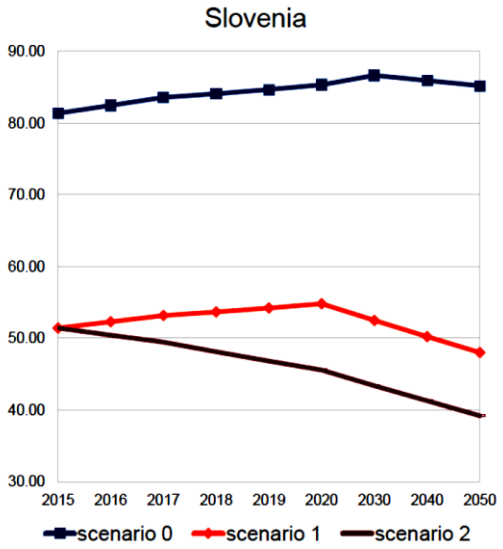
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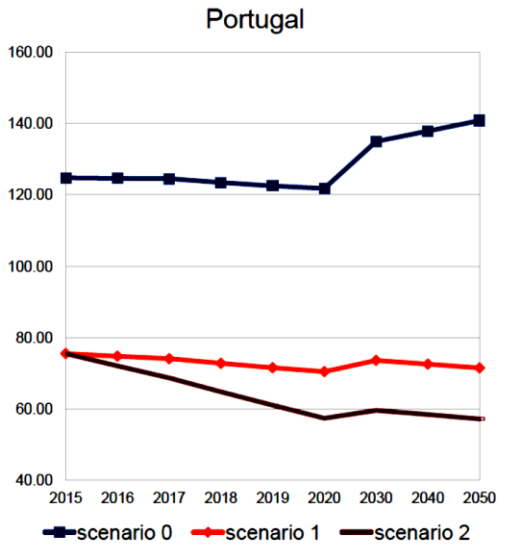

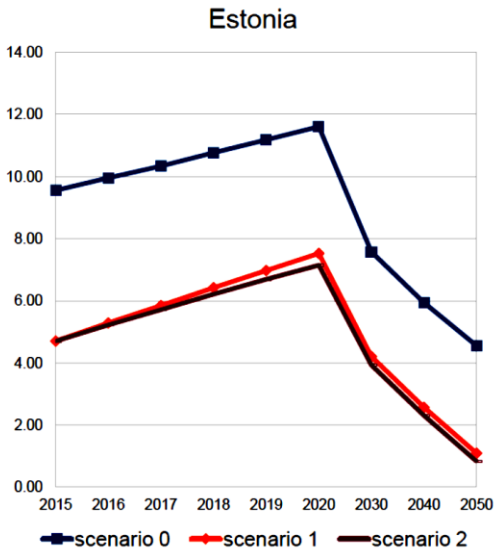

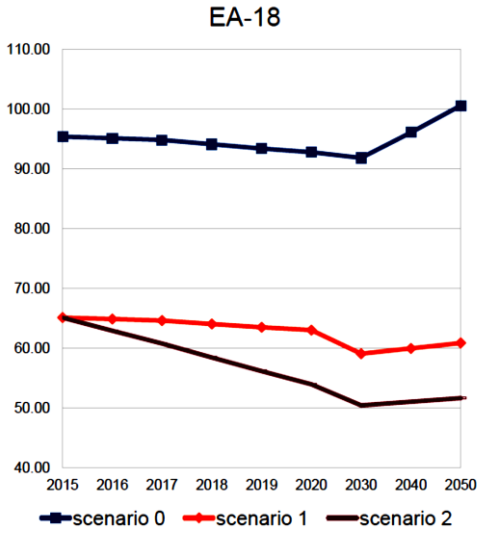

The reader should be cautious about Table 6 and all other tables of this study that are based on very long-term future estimates of macroeconomic variables. These tables offer interesting comparisons between alternative economic strategies but cannot foretell accurately future economic trends—we may say that they capture and represent the innate dynamics of the EA economies on the basis of current economic expectations about the far future. They are possible scenarios hinging upon anticipations rooted in the contemporary political and economic

conjuncture (the same holds for every other study of this kind, including the one by Pâris and Wyplosz).[33]

Table 6 Year of Debt Buyback for Different EA Countries in our Two Alternative Scenarios (When Debt Held by the ECB Becomes Lower than 20% of GDP)

	Scenario 1	Scenario 2
Austria	**2027**	2038
Belgium	2037	2046
Estonia	2016	2016
Finland	2016	2016
France	**2029**	2040
Germany	2016	**2025**
Greece	2064	2069
Ireland	2052	2061
Italy	2050	2060
Netherlands	**2023**	2030
Portugal	2050	2057
Slovakia	**2021**	**2028**
Slovenia	2031	2042
Spain	2031	2046
EA-18	2032	2044

Sources: Our calculations are based on data from AMECO, OECD (2014), ministries of finance and central banks of the respective countries, and the IMF. Bold numbers indicate the years when the size of the debt held by the ECB is lower than 20% of the country's GDP, whereas underlined shells indicate countries with a public debt ratio lower than 20% in 2016, at the start of the agreement.

Figure 2 shows debt dynamics for our three scenarios 0 (no action), 1 (suspension of maturing debt and related interest payments for 2016-2020) and 2 (suspension of maturing debt and all interest payments for the period 2016-2020) for all EA countries except for Malta, Latvia, Luxemburg and Cyprus, because we could not find all the necessary information for our simulations. Our conclusion holds for the EA as a whole, since these four countries jointly have

[33] We use OECD (2014) estimations about long-term growth, long-term interest rates and related factors that determine interest rate spreads for every EA country. Estimations of primary surpluses until 2020 rely on anticipated results for 2014 and 2015 according to AMECO. Then we assume that there is no policy shift, as a benchmark to discuss our alternatives. In order to be able to make comparisons of the results of each scenario, we have also assumed primary surpluses of 1% of GDP after 2020. This does not imply a policy suggestion, but is merely a basic assumption to secure commensurability between difference scenarios. Finally, we have also assumed that there is no debt monetization and that inflation are will be 2% in the long term.

sovereign debt lower than 0.5% of the total EA sovereign debt. It is quite clear from Figure 2 that, in the context of Scenario 2, EA economies reach very quickly the Maastricht target of a 60% debt ratio (with only the exception of Spain). On the other hand, this scenario requires longer periods until the buyback than Scenario 1 (see Table 6). Scenario 2 also improves the dynamics of debt reduction compared with Scenario 1. Both scenarios 1 and 2 offer much better results than the austerity-led Scenario 0. Scenario 2 captures our basic policy proposal, which can be summarized as follows: suspend the debt burden for five years and overthrow austerity forever.

It goes without saying that there can be many other extensions or alternatives of the general economic perspective we adopt. Part of the losses of the ECB could just be monetized without any sterilization, since we are currently experiencing a deflationary economic environment. This further reduces the total cost of our proposal and its overall duration. In relation to the social correlations of power, our proposal could also include the extra "emergency" taxation of the European UHNW (ultra-high-net-worth individuals). Table 7 presents information about the UHNW (with net wealth over €30 million in market prices) in several EA economies. Besides "ultra" rich individuals, there also exist "very" rich individuals who could also contribute to a levy tax in favor of society's well-being. The possible alternatives to our core viewpoint are many, but this is a political and not a technical issue.

Table 7 Ultra-High-Net-Worth Individuals (UHNW) in Some EA Countries

	2013		2012			
	UHNW	total wealth (US$ billion)	UHNW	total wealth (US$ billion)	population change%	total wealth change %
Europe	58065	7675	53440	6950	8.7	10.4
Germany	17820	2345	15770	2050	13.0	14.4
France	4490	525	4100	475	9.5	10.5
Italy	2075	235	1940	220	7.0	6.8
Spain	1625	195	1520	180	6.9	8.3
Netherlands	1290	175	1205	160	7.1	9.4
Portugal	870	100	785	90	10.8	11.1
Belgium	810	95	750	85	8.0	11.8
Ireland	580	65	570	65	1.8	0.0
Austria	565	70	530	60	6.6	16.7
Greece	505	60	455	50	11.0	20.0
Finalnd	400	45	405	45	-1.2	0.0

Sources: World Ultra Wealth Report (2013), Wealth-X and UBS.

8. CONCLUSIONS

This paper aims to contribute to the discussion in the European left about the ongoing sovereign debt overhang in a number of EA economies. Although we have presented several alternative scenarios in sections 6 and 7, which have as a main target the annihilation of austerity in the EA, our final proposal can be summarized by the following phrase: suspend the debt burden for five years, overthrow austerity forever. At a technical level, it can take many alternative versions but it is based on the economic firepower of the ECB to curtail the workings of financial markets, thus securing a vital fiscal space for the development of alternative welfare policies. The ECB undertakes the long-term management of a significant part of the EA sovereign debt, without direct fiscal transfers and without any actual upfront haircut.

Beyond its technical details, our argument is primarily of a political nature. It aims at writing off austerity, which is a strategic target of capital and a critical condition for the

promotion of the neoliberal agenda against the interests and anticipations of labor. We believe that this study comes at the right time. The ongoing sovereign indebtedness and related fiscal predicament for the majority of EA economies has made it clear that austerity-led fiscal adjustments and privatizations can by no means tackle the problem. Our proposal buries austerity forever at an overall cost which is much lower than the private sector quantitative easing already undertaken by the ECB. It thus offers a powerful economic argument to the left and puts forward a slogan for the forthcoming political confrontation: We will not sacrifice the welfare state to debt. The European social model must be re-founded!

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