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Europe will benefit from Greece being given a fresh start

Sir, FT columnists have recently acknowledged that debt relief is a necessary (though not sufficient) condition for Greece to recover (Gillian Tett, January 17, Wolfgang Münchau, January 5, Peter Spiegel, January 7). Only with such relief will it be able to develop a growing economy that makes full use of the skills of its people to contribute to a united and democratic Europe.

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On the vexed issue of debt resolution, the writers concerned are to be congratulated for taking an ethical and pragmatic stance. Ethical in rejecting a dogmatic insistence on debt repayment in full regardless of the social and political consequences — a dogma that is already dividing Europe. Pragmatic in recognising the breathing space that debt relief will give to a government intent on pursuing reforms — in challenging corruption and tax evasion and aiming at higher productivity — rather than pursuing austerity per se. We would take such pragmatism further to suggest three forms of financial restructuring that have practical precedents.

First, a further conditional increase in the grace period, so that Greece does not have to service any debt, for example for the next five years and then only if Greece is growing at 3 per cent or more, and until Greece has recovered at least 50 per cent of the gross domestic product it has lost since 2008. Precedents for this include the “bisque” clause in the UK loan from the US negotiated by J M Keynes after the second world war, where the UK did not service the debt until the economy met agreed conditions.

Second, some debt reduction, especially of bilateral official debt, to further increase the fiscal space available. Third, significant money for efficient investment projects, especially for exports. The Juncker Plan could provide a good framework for such investment, to be funded, say, by the European Investment Bank, EU Structural Funds and the German KfW. As well as increasing aggregate demand, such a supply-side measure will also enhance future growth.

Debt relief is not a sufficient condition for this virtuous dynamic, however: Greece must itself carry out reforms. We believe it is important to distinguish austerity from reforms; to condemn austerity does not entail being anti-reform. Macroeconomic stabilisation can be achieved through growth and increased efficiency in tax collection rather than through public expenditure cuts, which have reduced the revenue base and led to an increase in the debt ratio.

We think that the whole of Europe will benefit from Greece being given the chance of a fresh start. After all, as Ms Tett has reminded us, it was after substantial debt relief that the German economy was able to grow — and reform itself — in the 1950s.

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