

**LSE faculty urge both sides in the Eurozone/Greek drama to find a solution
by acting in a more economically responsible manner.**

The Eurozone is currently facing its biggest crisis since its creation in 1999. The consequences of Greece leaving the Eurozone are highly uncertain and could very well be detrimental both for Greece and the Eurozone. To avoid Grexit, it is essential that both the creditors and the Greek government act in an economically responsible manner.

The first priority for everybody should be to get the Greek economy on a sustainable growth path. This would benefit the Greeks, reduce the risk of financial turmoil, and maximize the amount of money the Greeks can return to their creditors. If both parties are truthful in saying that they would prefer Greece to remain in the Eurozone, then they need to recognise the need to restore economic growth. That would require the following.

1. The institutions have to agree to a relaxation of fiscal austerity, at least until Greece is on the recovery path. Austerity during a recession is the wrong policy as it deepens the recession. Continuation of the stringent austerity measures implemented by Greece is delaying recovery. More fiscal austerity could fail the creditors too, if recovery is so slow that the fiscal deficit increases. Public investment has collapsed completely and providing more funds for investment projects that can improve the infrastructure and create jobs should be given priority.
2. Although some progress has been made, further structural improvements are necessary, including pensions and VAT, anti-corruption, tax compliance, and institutional reform of product and labour markets. It is important that the Greek government acknowledges that there is still a lot to be done and comes up with credible proposals.
3. The Greek economy is not likely to recover as long as there is still significant uncertainty about the future and there is no credible path towards a situation in which the Greek debt is sustainable. It is essential to achieve an early agreement to get Greek debt levels at sustainable levels, even if it is to be conditional on progress elsewhere. Conditionality on structural improvements is a good way forward.

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