World Leadership Forum 2011 Dinner

Featuring:

Stavros Lambrinidis, Foreign Minister of Greece

STAVROS LAMBRINIDIS: You know, it used to be easier for foreign ministers before the financial crisis. They used to talk about foreign policy. But now no one seems to be interested in that. Turkey? Who cares? But the economy: everyone does care. Well, that is one of the strange things about being a foreign minister of Greece at this time of crisis. There are some benefits as well, of course. Everyone wants to see you and talk to you. It would be very difficult to get on a billion TV shows a few years ago. Now, you simply have to say, "The Greek Foreign Minister is in town," and everyone is flocking around to see who's going to chew the biggest bite out of him. Well, let's see if this is a deserved treatment for a Greek politician or a Greek foreign minister.

In the end of 2009, it was revealed that Greece had the biggest and most toxic combination of debt and deficit than any other European country at the time. Greece had, it was not alone, but it violated some of the fundamental rules of the common currency that we have in the Europe, the Euro. And that revelation sent shocks to the European system initially. It was considered to be a major violation of responsibility, one of the values that Europe is built upon, and everyone looked at Greece and then at the Euro and started to try and figure out what had gone wrong and how this could be corrected and avoided in the future.

The debate has developed over the past year and a half. Initially, one thing was clear in everyone's minds, that Greece and the Greeks had to be "punished." That they were living beyond their means, that they were not being responsible. And everyone was asking Greece to return back to that value. And Greece has. We did violate responsibility and I think that if you were to look at the Greek government, it has not shied away from self criticism.

But the past year has also been quite a bruising time for Greece basically because some negative stereotypes were developed and circulated that made it extremely difficult for a very effective, very successful, and very proud people and country to move to the path of recover as fast as they would have liked. But listen to what we have done and try to compare, look at the changes the U.S. is going through and the discussions you are having about fiscal consolidation here and growth and unemployment. Look at the changes that we did and the only one here back in 2010 to get a sense of the very remarkable and painful adjustment that Greece has been going through to defend itself and to defend Europe and the Euro from that initial shock back in 2009.

We cut about 90,000 employees from the public services. That's 10% of the public service in one year. At the same time, we reduced the primary government deficit from 24 billion Euros, that's about $35 billion, to only 1.5 billion. That's in a year and a half. Just imagine what that means in terms of infusing efficiency in an inefficient system. But also how many jobs get lost, how many salaries get cut, how many pensions get cut. We, at the same time, embarked on a huge project of structurally reforming a country that needed reform.

The pension system in 2010, in that one year again, was overhauled and changed. Pension ages went up—they were not that low, by the by. The Greek average pensioner left work at a higher age than the average European, but they were increased. The health system has been rehauled, a system that has been getting billions of dollars and wasting them because of inefficiency, because of intransparency, rehauled. Just think of how many vested interests lost their plush positions because of that rehauling.

The education system and the universities--such a vital, vital growth cell in any advanced society--in Greece, for decades, have been suffering from inefficiency, again from vested interests. That was changed. And mind you, with the vote of the vast majority of the members of the Greek parliament of different political parties. All this in just one year.

Here's the most perhaps startling of these facts: the general deficit of the country fell by 5% from 15 point something percent to 10 point something. If you think about the U.S. economy, that would translate to about 700 billion Euros. If you think of what that means in the U.S. economy, that is the defense budget. So in one year, Greece managed with huge pain of its people, with major political cost of its government, to cut the deficit by as much as the whole defense budget in the U.S. would be had you made an equivalent cut.

These are difficult changes. And today we're still in trouble. When I say we, I don't simply mean Greece. I mean the perception of Greece and the perception of Greece in the States and around the world. How did we reach this point? Why are the markets still not buying Greek bonds? Why are people—serious politicians and analysts in financial newspapers around the world—predicting our imminent demise? The drachma will be coming back. Greece will default.

Well, there are reasons and there are solutions to those reasons. Let me try to very briefly, if you like bullet point wise, go through some of them. First reason is that we were not perfect in this past year-and-a-half. By this, I mean we changed a tremendous amount, as I described, and I only gave you just the tip of the iceberg. But we didn't change other things that we should have. Now, one might be willing to allow for a few mistakes during the period of such huge changes but not when the international spotlight is on you.

So, for example, we did not privatize as fast as we should have or wanted to because it's a very difficult process to do. The tens of billions of Euros of privatizations that we have committed to do are lenders, because we reached a point of having to receive major loans from the European Union, our partners in the EU, and from the International Monetary Fund. But that, if you were to look at the delays or the mistakes, had very little to do really in the end of the day—in my view at least—with the skepticism you see still flying around surrounding Europe and surrounding Greece.

And I say this because, for example, we have committed ourselves to reduce in one year the deficit by 5.5% instead of the five that we achieved. The five that we achieved, no other country in European history has ever achieved. But yes, there was 0.5%--and we can go into some detailed discussion for anyone who is perverse enough to care about hose economic things—but that 0.5% could clearly, surely, not by itself create such anxiety. So what else do we have?

Well a second reason that we are still in this same stage today, that is in a stage of doubt, is that such major cuts and major changes create recessions. Recessions are inevitable when you have a tough and tight fiscal consolidation of that sort. Now, you can look at that recession and say, "Well, it's natural. It's going to take some time for all of this to turn around. So let's give Greece or anyone else a chance to turn it around." Or, and this happened daily in many newspapers around the world, you can look at it and predict that no program will work, that Greece is doomed and therefore, to predict default.

Now what's the problem with that? The problem with that is that once you predict default, there can become a self-fulfilling prophecy as many of you in this room who deal with finances know. Economy psychology. So the mere prediction, even in the face of proven, undoubted, successful, major fiscal consolidation and structural reform changes, the mere prediction of default kept the markets closed. So although we made the changes, we still could not go out and borrow.

Now a third reason is that recession, in addition to the effect that I described to you is, simply put, a recession. Now that means that many people are out of a job, your tax base shrinks, you cannot collect as many taxes as you would have predicted or wanted to collect, and therefore it is very difficult to close that deficit gap if you don't have enough earnings. So recession by definition again, especially if it is bigger than initially predicted not by yourself but by the International Monetary Fund and others who lent you the money, makes it very difficult to hit the targets that you've set for yourself. So you have to take then additional tough measures, very politically difficult, to try to hit those targets.

A fourth reason that we're in this state is that at some point in Europe about six months to eight months ago too many doctors, very vocal and with different recipes for how to save the patient, were hurdling around Greece's bed debating in public—including the front pages of the European newspapers—on what should be done. Now should Greece go through more sterility or should Greece take a growth injection? Should the private sector participate in trying to help Greece get out of their problems or should the private sector be left out of it? In other words, banks and others would not contribute.

Now these are very interesting debates and very important ones. We have them; you have them in the States. When they take place in public, when major European politicians or economists or bankers or others indicate that they're not sure where the boat should be headed, the markets assume that the boat at some point is bound to hit an iceberg even if it's not. Even if, indeed, in the end those doctors, when the patient is about to die, do find the right medicine to save the patient and to save themselves. But too much cacophony gave people the chance to too many people in the markets to assume that this is not going to work out.

A fifth reason that we are here today is that indeed conditions changed around the world. So Greece embarked on this huge, difficult, but potentially very hopeful consolidation program at the time that the U.S. didn't have its own problems and its own public fights between its major parties on what should be done. Which, of course, given how huge the U.S. economy is for European purposes as well, did not help the stability in Europe.

Ireland and Portugal, two other European countries, after Greece entered the support program with these loans also were revealed to have serious debt and deficit issues and became incapable of borrowing money in the markets. So they too entered support programs by European and IMF loans. And suddenly people around the world started thinking that Europe, not just Greece but Europe, is having a structural problem that is much bigger than what at the time was convenient to brand as simply the Greek outlier. And of course that also scared the markets.

And finally, because there's no such things as the markets in the end of the day but there are different types of investors and different types of interests, there is no question that what you had on top of all these other issues and problems was uncontrolled market speculation. There was a part of the markets who simply invested in seeing Greece fail. So whereas institutional investors were betting, hoping for a Europe that stabilizes so they can invest money in a stable environment, there were others, the infamous naked CDS (Credit Default Squads), who were betting that Greece would collapse. And that kind of trillions of dollars betting, of course affected the markets and the way that the markets looked at the future of Greece.

It was this damned if you do and damned if you don't approach in many ways that we found, and we still find frankly, quite frustrating. You know, it was interesting with Greece when the debt and deficit problem was revealed back in 2009 and early 2010, the credit rating agencies starting downgrading Greece. Because they said, "Look, Greece has a big debt, a big deficit, and they are not taking the necessary and painful fiscal consolidation measures in order to bring that debt and deficit down." And then Greece started taking these measures, extremely tough ones, measures that no other democracy had ever been called on to apply in such a short period of time. And guess what happened then? The credit rating agencies downgraded Greece again.

Because now they realized that all these consolidation measures brought recession and because of the recession everyone predicted Greece could not get out of this. Now you see the catch 22? And the funny thing about this whole thing is I'm still standing here and I'm still alive as is my country. We have managed, because all these predictions in a sense and in the end are not based on the exact true facts of the situation, to fight against them. It has not been easy and we know that we have a long way ahead of us of many years of pain.

However, both us and the Eurozone and Europe will survive these crises. What do we have to do to ensure that? And here's where I will end if you like with a few policy and other suggestions that we've thrown on the table. We obviously need to deal with the recession. This is not just the Greek problem. This is a European one. Ireland proves it. Portugal proves it. Yesterday Italy was downgrade by Standard and Poor's, I believe, because again they are predicting a greater recession than assumed before.

There is, in other words, a need for many European countries, not just Greece, to fiscally consolidate at a time that no one can afford recessions of too many years. So how do you infuse more money into economies that cut, cut, cut? The answer is you need to find new sources of revenue. Now a major debate in Europe has broken out in the past few months and we appear to be reaching a consensus, a debate that is such a taboo in the U.S. that—well, I predict it won't be a few months from now because this is a global discussion and a globalized world. You cannot that easily isolate different countries or different reasons.

But it is the financial transaction tax debate, in other words, to place a very low tax on financial transaction. Financial transactions today are virtually untaxed today around the world. It's probably the only service industry that doesn't even pay a VAT tax. Now given the fact that we all reached this major crisis to being with, because of the financial markets making some major miscalculations, and that's putting it nicely, a few years ago it is a little strange that we haven't considered that given the pain that many of our people are going through—unemployment, recessions—that those same markets who created that ruin should not pay a small, compared to the huge size, price in order to help the process.

If, as you are cutting, because you must cut. There is no alternative for Greece than to bring the country to primary surpluses. That means major fiscal cuts. That means pain. There is no alternative to this. Anyone who tries to assume, hope, that they can escape that predicament is doing harm to their country and harm to the Euro. But given all that you need to grow as well. Shouldn't we find those new sources? The European Union has said yes. The European parliament has said yes. The German Chancellor has said yes. Most in Europe are saying this is a time to move in that direction. I would submit to you that this is a time as well for the U.S. to begin that discussion with us. This is a G20 matter really. It is not just a European one. But we need to begin this debate.

Now the second thing we have to do and we did, and this applies primarily and particularly to Greece, is on the 21st of July of this year the 27 leaders of the European Union decided that they were going to extend dramatically the maturity dates for the loans given to Greece. We've talking about 110 billion Euros. That's about $160 billion. Plus a second package coming now for about the same amount so you can imagine; we're talking about a lot of money.

Now extend that, reduce the interest rate steeply. In other words, give Greece the necessary space to breath and the necessary time for the difficult structural changes to being showing their effects. When you are opening up as we did in Greece, and another thing I didn't mention before but you know, about 150 professions that were closed and therefore not particularly competitive. That takes some time for the competitive advantages of that to show. So that's what the decision on the 21st of July did.

Now the third thing that Europe has to do is to become more political, more economic, and more united. Europe in the late '90s early 2000s created a common currency. But it did not create at the same time the common governing structures—economic unions, political union—that would go along with the monetary one. Let me give you an example of this so to make it particularly well understood. You have 50 states and you have a joint currency, the dollar. And you also have, to back that up, a common bond. It's called the Treasury Bill.

And if I'm invested in China or in Greece or in France, I don't particularly care to see if the economy of Indiana is better or worse than the economy of New York or if Hawaii has a debt problem that is bigger than California's. I don't care because I have one currency, one Treasury bill. I invest if I want to in the collective strength and power of those 50 states, in other words, in the United States of America. And that collective strength and power is what makes Treasury bills the most sought after in the world.

Now take the EU: 27 member states, 500 million citizens, a free market—the absolutely biggest market in the world—huge financial productivity power, one currency, no treasury bill. So if I'm an investor, I start playing and speculating with the different debt levels of the different 27 member states trying to figure out who might be better and who might be worse. What's happened to the power of those 500 million people that a common bond could unite? Well, we don't have it.

Because to have it, that requires a much closer coordination of the economies of those 27 member states. It requires those 27 member states to give up more power to a central body and that central body, in order to be effective and legitimized, it has to be very democratically and transparently selected, which today the bureaucracy in Europe usually is not. So to get from A to B, that's growing pains extraordinaire. And this is what the financial crisis shocked Europe into realizing that's what they had to do.

But this takes time. You have 27 different counties in the EU, 27 different governments and parliaments in different political cycles. Some countries are just out of elections. Some countries are about to go to elections. Some countries govern by coalition governments. Some governments govern by minority governments. One cannot ignore those 27 political circles, those 27 public opinions, when one tries to make such a huge change that gives collectively with our own free will more power centrally and away from what we have used to be in our own private, national gains.

Now this is called economic governance and Europe has embarked on it and it's a difficult debate. But for anyone willing to bet against Europe, think again. Because we know what was lacking and we are fixing it now. We also need to deal and I think Europe is dealing, I think I made that clear with the examples I gave before, with a better regulation of markets. Choking markets is the biggest mistake anyone can make. Better regulating markets is something that we absolutely must do.

You know what is interesting, when our debt and deficit was revealed everyone was very reluctant to lend us the money they lent us. No hand outs, by the way. We are repaying every single Euro of those loans already and we will up to the last Euro. But everyone was saying, "Well, there's a moral hazard with helping Greece because they did all these terrible things. They should get money that easy. They should hurt. They should be forced to change. They reached that point because of the structural problems in their country. So give them the money but force them to change."

Fair enough. But let me ask you something: how many trillions of dollars or Euros did we give to the financial sector and the banks back in 2007 and 2008 and 2009? Way more, I assure you, than what Greece has gotten in loans. Isn't there a moral hazard there as well? Didn't we all realize the debates in the U.S., the debates in Europe at the time, that we had a financial sector that was out of control? That we needed for the benefit of our peoples and of the financial sector itself to ensure that those who took reasonable risks, those who didn't speculate against you or me, would be reward more than the others?

So wasn't there sort of a moral hazard in bailing out all that system without however demanding a single real change in it? Is it fair to say there's a moral hazard if 10 million people have indeed lived above their means for a few years but to ignore the moral hazard and the problem that exists when a whole market does the same? I don't think it's fair and I think it's to the benefit of everyone not to punish or to castigate any market. I think that's a mistake. But to sit down in a serious way and regulate in a transparent and fair way markets as well.

Finally, dear friends, my country will not survive and do much better than surviving simply because we have shown the political will to do so or simply because the Greek people have shown the wisdom to suffer through incredibly painful changes that, in many cases, are unfair for them. They were not responsible for this huge debt and deficit. Greece will survive and Greece will reach its absolute potential again because it is a very rich country that was very poorly managed for a few years. But it is not a poor country.

The sea, the sun, the wind; they are the oil of the 21st and 22nd century. And Greece has them in tremendous abundance. Already we are developing projects where hundreds of billions of Euros and dollars can come to the country because we are developing, as we should have for many years now and we didn't hence our present troubles, in order to be the leaders in providing alternative energy to the country and to the rest of Europe—our neighborhood—and further on.

Thank God that many of you are Greeks in this room. Is there anyone who is not, by the way? No. Well, thank God we are pretty darn good, pretty darn educated, pretty darn resourceful and pretty darn effective both inside of Greece and outside of it.   And we have been for many, many, many years. Now what we have to do is to refocus that energy and that education level where it really matters. And this is precisely what we're doing today. Our tourism—this is our heavy industry in many ways—guess what? It increased in the midst of a recession this year by over 20%.

Now this is where major investment can and will take place. You'd be surprised to know that pharmaceuticals in Greece are a huge business. Some of the most innovative people that are in pharmaceuticals are in Greece, not somewhere else. In Greece. Now that business is flourishing. As is IT. Crete has one of the most remarkable universities in Europe on those issues. Some of the most brilliant minds are in Greece or in Silicon Valley today and Greeks cooperating and communicating.

After here I'm going to Los Angeles and one of the things I will be attempting to do is bring some of these brilliant, young, Greek and non-Greek minds together so that they can figure out what to do. I'm the government. I'm perfectly well aware that I can do very little in terms of all the bureaucracy I carry behind me. But if you manage to bring bright people together, that's where the magic happens. So a smart government, in my view, should be opening up those doors. Not trying to control everything from the center.

This is the Greece of the future, not of the far future, this is the Greece of the immediate future. We are changing rapidly. By so doing, we are giving a future to the present and the next generation in Greece, a future that they probably wouldn't have otherwise had. By so changing, we are also looking at our responsibility to safeguard the Eurozone and the Euro. A currency that, in spite of this huge crisis in which we have been engulfed, is still extremely strong. It probably lost about 20 cents in the last year and then regained them again. That's for anyone who thinks that the Euro will collapse.

By doing so and by changing ourselves to bring stability to the system, by changing Europe to bring stability to its members and to its economy as a whole, we are also in my view doing the best possible thing for strengthening U.S./European relations. I think it is no accident that Tim Geithner was with European finance ministers a couple of days ago discussing these crises and explaining how the U.S. sees the importance of Europe binding together and fighting this together in solidarity.

Or when two months ago Hilary Clinton visited Athens and we had some remarkably good meetings. You'd be surprised of the extremely warm reception that she received. How there too, she related her own and the administration's desire not only to help Greece but to help inspire Europe to get out of this crisis fast because our economies are so interconnected that what happens to us happens to the U.S. and vice versa. So Greece is changing itself. This may sound a little grandiose but let's hope that by changing ourselves we are going to help change the world in a way that is different, that is fairer, than the wrong direction it had taken in the past few years.

You know what dear friends? I look at competitiveness. You talk about it a lot in the States. We talk a lot about it in Europe. I look at some countries in the world today that are deemed to be very competitive and I see that in many cases they have virtually no labor standards. In other cases they have virtually no safety nets or pension systems to speak of or they feel free to develop by engaging in major environmental degradation because they don't have laws to protect the environment. Or in some cases, they're not even democracies. And I'm thinking you know what? That may be a competitive advantage but I submit to you that it's a short term one.

Now is that the model that Europe or the U.S. wish to emulate or should we be investing in education, investing in healthcare systems, investing in research and development? Putting money, in other words, that cost in a competitiveness that is based in quality not one that is based on inequality. And if we manage to live up to that promise, then I think we'll be building a much better world for ourselves and for our kids. I didn't mention once the word Turkey in this speech. Thank you