

Answers during the Panel

The Future of Greece in the EU

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1:15:49 – 1:20:45

I think we are in complete agreement. There is nothing in what I hear with which I disagree, except I may just add something here and there. Let me just make the general point which is often misunderstood. When you have a monetary union and we have the... a common currency and one part of it suffers a crisis, immediately we have a problem in the presence of debt. If there was not debt, the logic of internal devaluation makes sense. So, instead of having the drachma devaluing and our exports becoming cheaper and our imports more expensive, we could have our incomes come down, prices coming down by the same degree and that would be equivalent. It is not equivalent when you already have a lot of debt in euros, because in turn devaluation means that your incomes come down, your debts don't come down, private or public, and then you're stuck, then you need a bailout. Then you go into this kind of cycle. So in turn devaluation creates Grexit, or Italexit or Spanexit or something-exit.

So we need to be able to respond to asymmetrical recessions in a way that manages the recessions where they occur. At the moment, we have an anti-deflationary policy from the European Central Bank, quantitative easing, which concentrates its firepower, because of the way that we have constructed it, on Germany, and so more bunds are being purchased. That's creating problems in the insurance industry here, because the yields of the interest rates of the bonds come really crashing down. And when, forget Greece, Spain enjoys a lot less help with its deflation so, you know, this is a structural problem.

By the way, our wages came down by 38%, not 17, not 18, not 28: 38%. Some may say: well you deserved it, you lived beyond your means, you weren't producing enough, you were lazy, you were taking long holidays and long lunch breaks. Maybe, maybe. Okay, but, you know, I don't want to counter this argument. The point I want to make is this: 38% reduction in wages, substantial reduction in the cost of doing business and yet exports are flat. That has never happened anytime, anywhere. It's a major failure. People say well, well, because Greece didn't reform. Even if nothing happened – it's not true that we did not reform – but let's say for argument's sake that I accept it, the fact that you have such a major reduction in labour costs and yet no export growth means that something went really badly wrong. What was it? The banks. So you have export-oriented companies in Greece with a full order book – profitability – and they can't get the loans, so they can't buy raw materials to provide their customers outside of Greece with the output that the customers want. They go to the banks and the banks say: "We can't lend you because of very high levels of non-performing loans". They come to Frankfurt or go to Paris and you know what they are told? Shift your headquarters here and then we lend you. This is not how to run a monetary union.

On the question of tax evasion we have two problems here. One is, we need to find the evaders. We've already started the project of algorithmically comparing and contrasting the movements of bank accounts, bank transfers, both within Greece and outside Greece, with tax returns. We hope to have good results very soon. We already have caught tax cheats, but this is very important to complete. We need the cooperation of the banking sector; we need the cooperation of the bureaucracy. But this is obviously what we need to do. But then there is the second problem. Let's say we find the tax cheats. We have to have judicial reform, because the system of justice, the court system, is not functioning properly in the sense that there is such a backlog of cases that by the time a case is heard, you know, ten years have passed, especially if you have appeals and counter-appeals and all that. So these are the major reforms that we really need. This is where we need help from the institutions. We don't need the institutions to force us to increase VAT.

	We want help where it really matters.
1:29:42 – 1:35:18	<p>Thank you ever so much. Again, I find it hard to disagree. Let me begin with the first point you made that we were surprised by the debt crisis and the way that the eurozone was threatened by the financial crisis. I don't think we should have been surprised. In 1971 Cambridge Professor Nicholas Caldera wrote an article in the Statesman in which he said that if the Europeans make the mistake of creating a monetary union before a political union, the result will be that the European Union is going to be disbanded. And think about it: we tried to replace the political union by means of rules. Well, if rules could solve the problem, why don't we have a rule that we ban poverty, or baldness for that matter? Rules don't work if you don't have the right institutions in place. Think about Spain and Ireland and compare it to Greece. The Spanish government – governments – and the Irish government were very vigilant about debt. They actually had no debt. They had very little debt, much below the Maastricht limits, but, because of the periphery and its relationship to the surplus country and the tsunami of capital coming from the surplus county that I described in my talk, it ended up the case that, the case being that the public debt was very low, but private debt took its place. So total debt was huge because we were in a monetary union that was not designed to handle these surpluses and the flow of capital. So, you know, so when the real estate market in Spain and Ireland collapsed, then in the end the debt was transferred to the state, so you ended up with a sudden explosion of public debt, but the debt was the other side of the same coin that I described before: the imbalances...the internal imbalances of a badly designed eurozone. And there's nothing you can do with rules about that. You need institutions.</p> <p>Now how should we have reacted to the crisis? Allow me to say very briefly this could be a discussion that takes forever, but we don't have the time. Or the energy. I think we should have simply – simply – we should have Europeanised three realms: we should have Europeanised part of the debt, we should have Europeanised the banks – as you said – and we should have Europe... had a European strategy on aggregate investment. Now can you do this without a political union? I believe you can. This is a long discussion. For instance we could have part... Let's take the debt of a country like Spain, of Italy, of Greece, of Germany even, separate it between the part which was "legal" in Maastricht terms – the Maastricht-compliant part of the debt – and the rest. And you would have only the legal part being helped by the ECB, like it is being helped now – right? – to create an interest rate differential between the good debt and the bad debt in order to discourage bad debt, while making the whole debt more manageable and serviceable. And you could write rules for that without parliamentary procedures and political unions. We could have better rules, but this is an institutional intrusion. With the banks, you are quite right. We need banks. You can't let banks close down. You can't let people's savings disappear. The banking system is the blood vessels of the organism. But it's one thing to say you should save the banks; it's quite another you should save... that you should save the bankers. So what we did here... we saved the bankers at the expense of the citizens – hmm? And don't think that I'm asking for something radical – think Sweden 1992. Sweden didn't do that. They saved the banks. They nationalized them, and within a year they had sold them back to the private sector – not to the same people, or, actually, they didn't hand them over to the same people. This is the only way – this is South Korea 1998. This is how we should have done it. We didn't, and we're paying the price for it. You mentioned November 2012 and the idea that was always there that the Greek debt had to be rendered sustainable, linking our interest payments without nominal GDP goals. Let me tell you why I think this is a good idea. It is a good idea because</p>

	<p>it's a statement. It's an announcement to the world that Europe has become a partner in Greece's growth; that it now has a vested interest to see Greece growing because its own repayments depend on Greece's growth. The announcement effect is very important. It will bring more investors into Greece because they think: "Okay Europe now has a vested interest not to let this place shrink further".</p> <p>And finally on common defence, of course we should have common defence and in indeed Greece, I can assure you, we'd have a much lower debt problem intertemporally, because we've had three and four times the level of defence expenditure than Germany did.</p>
1:44:24 – 1:51:31	<p>Well thank you ever so much, in particular for all the solidarity that was implicit in your presentation. But let me answer the three difficult questions that you put to me. I'm not going to refer to all the easy things. Okay, so there are three things: growth strategy, reform of the public sector and nationalism. I begin with the growth strategy.</p> <p>It is very hard to have a growth strategy when you have no investment. So what we need to do is we need to generate both investment flows and credit flows. We have neither investment or credit because of the NPLs, the non-performing loans, that are weighing down the banking system. Here's an idea which we have been thinking about and planning for, but of course it can only be properly effected once the negotiation is finished with the institutions, like everything else. You know, we... life has been suspended until further notice until the negotiation is finished. Okay. We have committed to continue the privatization process, but not as fire sales. We want to... what we are going to change is, firstly, we are going to impose minimum levels of investment by the privateers who buy assets, so that creates one wave of investment. Secondly, we want to maintain a stake, equity for the state – minority, but nevertheless substantial – not because we are control freaks and we want to keep controlling the companies, but because we want to take this equity and put it into a new development bank, use it as collateral, add to that development bank other assets, particularly real estate assets of the state which we do not want to sell but we want to develop, and increase the price of (in) by means of microeconomic reforms, property right reforms. That development bank will now be working side by side with the private sector and privatizations; the privatisations can crowd in investment funding from the EIB, for instance, the development bank can go into business with EIB, with private investors, with private banks, with KFW, with the EBRD, with the Juncker Plan, and create this investment flow into areas that are carefully selected, not build up new bubbles, not to create dirty energy or dirty growth, but to create "green" development in, for instance, areas like organic farming, in transport, green transport, green energy, solar and so on and so forth. So this is how we are thinking of tackling the problem of growth and investment. But also we need a functioning banking system. For that we need to use the cushion that is left of about 10.9 billion in the EFSF in order to recapitalise banks and particularly to use a kind of vehicle, a capital asset management vehicle – I don't necessarily want to call it a bad bank – in order to cleanse the non-performing loans. So that is our growth strategy, since you asked.</p> <p>There is the question of reforming the public sector. You quite rightly spoke about concrete proposals, about corruption, about the way in which we can lessen the burden of bureaucracy, create circumstances, so start-ups can breathe easily and not to have, you know, young people.. young entrepreneurs having to be weighed down by the bureaucracy and the corruption. Let me remind you of course that corruption grows in countries whose economy collapses. When you are paying tax inspectors less and less money, you are creating more incentives towards</p>

	<p>corruption. So growth and the fight against corruption are synergistic. They are not independent. You asked a very important question – one that really upsets me – about new-clientalism, replacing one set of clients with another. We are trying our best not to do this. But I recognize that nothing reproduces itself as readily as privileges and clientalism. Many socialist parties and social democratic parties in the past have managed not to change society, but to change themselves, and we are constantly cognizant of the danger of this. We shall fight tooth and nail against ourselves, so as not to do this.</p> <p>Finally, nationalism. You can understand that this is a very sensitive issue, firstly because SYRIZA is a staunchly anti-nationalist party. We are a party of migrants, of activists that have stood on the side of migrants against the intrusions of tribalism, of nationalism, of misanthropy. There has been no issue involving these civil liberty issues and anti-nationalism where SYRIZA was not at the forefront of the fight. So you realise that when we had to form a government with a party that is of a different ilk, let's say, there was a lot of soul-searching and contradiction. I'm not beating about the bush here, I'm being honest with you. But, I have to tell you that our coalition partners have so far exhibited remarkable cooperativeness in relation to our government. They have accepted that they have taken some very few portfolios and they have stuck to those. Let me give you an example. We have just begun the process of granting nationality to the children of migrants – against what the right-wing parties have advocated. Our coalition partners have not opposed it. So we have a good modus vivendi with them. We maintain our differences. Personally, all I can say to you, standing here in front of you, is that I will not accept, I will not tolerate even the slightest smidgen of an iota of a hint of racism, of nationalism or misanthropy.</p>
1:58:50 – 2:06:50	<p>Thank you. Four amazingly important points and questions. The first one concerns the bank run that you mentioned. Well let me remind those who knew and inform those who didn't know that the bank run began in December. We were elected on 25 January. The previous government, in its infinite wisdom, decided to start a bank run by starting spreading the rumour that if we were elected the ATMs would cease to exist the next morning, would cease to function the next morning, in order to retain government. Nothing is easier than a sitting government to start a bank run. Can you imagine Dr Schäuble saying to the Germans: "If we lose this election next week and the polls say that they would, Deutsche Bank would close its doors and if you have an account there, that's it. You won't be able to have access to it". This is unbelievable – a sitting government beginning that. But then, once we won, you could see that that threat became institutionalised. The European Central Bank reduced the extent to which our government, during the negotiations, could issue T-bills, effectively with a cap of 15 billion, was reduced to 9 billion, and there were all these threats, or leaks through Reuters and Bloomberg, that the European central bank was beginning to introduce capital controls and this is all adding to the psychology that you described, Gustav.</p> <p>In the summer of 2012, the euro was saved by the president of the European Central Bank simply by one sentence when he said: "I will do whatever it takes to save the euro". Nobody said we will do whatever it takes to keep Greece in the euro. If that was said: no bank run. The Greeks don't want to take their money out of the bank. They're just normal people who are responding to a culture and strategy of fear. And this, to me, is a bit not only worrying but puzzling, because Mario Draghi in November fairly succinctly and correctly said that for the euro to succeed anywhere, it must succeed everywhere. Well surely everywhere includes Greece.</p>

On the second part, on repaying debt and the debt swaps, often I am being asked: "Why should we, Germans, Slovaks, Portuguese, give you a new deal for the Greek debt?" Well the answer is because it's the only way of getting your money back. This is not a threat. I'm not saying that I'm threatening you as the finance minister that I'm not going to give you the money back, but what I'm saying is something very straightforward: if we have Grexit, which I'm sure we won't, but if we were to have Grexit, then we wouldn't have the euro, so how can we repay you in euros? Very simple. I mean a ten-year-old can understand that. So we need to have an accommodation, an agreement, something that works, unlike the previous programs that didn't.

Now you made an excellent point regarding the fact – genuine fact – that wages in Greece were reduced far faster than prices. But, Gustav, think about it. This is, to some extent, understandable, because when you have such a huge, deep recession, you have all these bankruptcies, you have all these companies that shut their gates. They stop competing. The surviving companies in every sector suddenly face far less competition. So competition is not given. During a massive recession, competition shrinks. And then monopoly power rises. Okay, it was always very high in Greece, but it rises further because what happens? Think of it – the pie has shrunk, but the players that are dividing amongst themselves are very (much) fewer. Some of them actually increase their profit rate because their slice of the pie is much greater than before, even though the pie is much smaller.

[It's not the only reason]

It's not the only reason but it's a reason. In very sharp recessions you have an increase in monopolistic power – concentration ratio. Besides that, of course, we have monopolistic practices. Let me give you an example: supermarket chains use monopsonistic power against their suppliers to force them to accept deals regarding, let's say for instance, advertising of the suppliers' product within the supermarket without invoicing it, so that doesn't go into the invoice, so these companies cannot... the suppliers cannot get their money back from the tax office. And so this is something we need to intervene.

The problem with the troika, however, the problem with the institutions, is that there is a great deal of emphasis on creating more competition by granting access to Northern European chains, large corporations, for instance when it comes to the milk market, to allow them to sell seven-day-old milk as fresh milk against the interests of the local producers who are selling fresh milk which is two days old. And very little emphasis on helping the local producers against monopolistic power that is growing inexorably and without impediment domestically.

Finally on the question of democracy. One of the saddest moments since I became minister was when I was told in a Eurogroup meeting that the fact that we were freshly elected, that we have a fresh mandate, doesn't mean much, because democracy cannot change anything when you have contracts, loan agreements. Let me submit it to you that if that were true, perhaps it would have been more honest to suspend elections for countries that are in debt. Is this the kind of European Union we want?

More broadly, and this is how I'm going to end this intervention: Think of the way that we're making decisions about the eurozone, about Germany, about France, not just about Greece and Spain and Ireland. We have a committee, the eurozone, sorry, the Eurogroup, which makes these very important decisions. Exactly who is it answerable to? Well you could say that I am elected, Dr Schäuble is elected, Michel

	<p>Sapin is elected, and we are answerable to our parliaments. True. But is this satisfactory? Because I can assure you that I do not, as the Minister of Finance of Greece, make serious inroads in the decision-making of the Eurogroup. I can always go back to my parliament and say: "This is what I managed to achieve. I didn't want this decision, but it was the best I could do". And I think that Dr Schäuble can do the same, and Michel Sapin can do the same, and Pier Carlo Padoan can do the same. The fact of the matter remains that as a group of decision-makers we are not answerable to any parliament. And this cannot be good for democracy. This is taking us further away from a situation where – of convergence – where we, as Europeans, could pronounce "We, the people, are in control of our lives".</p>
2:13:39 – 2:20:35	<p>I feel particularly moved by the fact that you are here and that we're having this dialogue. I want to thank you for this. This is how we should be doing it. Not through distorted lenses, but through direct dialogue. Sir, let me say to you that just like you in 2010, people like me, myself and many colleagues of mine who are now in government, were on the streets of Athens protesting the bailout. Why? Why were we protesting the bailout? I can show you articles of mine. I was saying that it was a scandal that given that the Greek debt had become unsustainable. By the way, that was all private debt, debt, private. It was public debt, but owed to the banks, to private banks – Greek banks, English banks, German banks. It suddenly became unsustainable; we could not service it. That's what bankruptcy means for a state: insolvency. What did the powers-that-be do? The Greek government? I was very cross with the Greek government, which was led by somebody I was very friendly to, by the way, George Papandreou. I was very angry with that government; I was very angry with the IMF; I was very angry with your government; I was very angry with Europe. Why? Because we were misleading the Greek people and we were misleading the German people. We were saying to them – and I think we agree on this from what you said – we were saying to them that here we have an insolvency of the Greek state and we're going to deal with it by loaning the largest amount of money ever loaned in history to an insolvent state on condition of austerity that reduces their income from which the new loans and the old loans would have to be repaid. And my point was, this is a huge mistake from a European perspective because we are lying to our German friends and we are lying to ourselves thinking that we can get out of this and repay our debts. So this is the kind of government you have in Athens now. You have a government comprising politicians – I mean, I wasn't a politician then; I only became one five months ago – but comprising people who were against this loan from the German taxpayer. We thought that that was fraudulent. We should never have borrowed that money from the German taxpayer and not only from the German taxpayer, but from the Slovak taxpayer who is poorer than the average Greek, from the Portuguese taxpayer, from the Irish taxpayer, from the French, even the Slovenian taxpayer. And we were against this. We were saying: "Well, we suffered a major disaster; we have to deal with it; we have to restructure our debt; we have to have a deal with the banks; our European taxpayer friends should not be involved in this. And what I'm doing now as minister is to say: "Okay, we have this debt now. I'm not responsible for it; my government is not responsible for it; we were out on the streets demonstrating against it. But now we have it. How can we pay the most back to you, to your taxpayers? That is the question. And the answer is by growing. Now, if I accept what the institutions are asking me to accept, which is primary surpluses of 3.5%, 4%, whatever, you know, 2 and a half next year, we are going to simply not grow enough to pay you back. This is why I do not want to be yet another Greek minister who makes promises knowing that he cannot fulfil them. And I think that you and I are allies in this. And forget that you are a Christian Democrat and I am a crazy lefty. Forget that. We are Europeans who should have</p>

an alliance on the basis of logic about this: looking after our taxpayers: your taxpayers and my taxpayers.

On the question of... You mentioned the question about the ESM This is all a trick. What we are saying is I owe money to the ECB, as the minister of finance, next month. Now, I can't repay this, everyone knows I can't repay it, I don't have it. So where do I borrow it from? From you? From your taxpayers? Again? Next month? In order to pay the ECB? Alright, let's say I do, but then that makes it harder for me to get back into the markets so that I can borrow more money to pay you back. This is why we're... the proposal is on the table, that we should shift that loan from the ECB to the ESM simply to make it more long-dated, to link it to our growth rates, not because I want to defraud you and your taxpayers, but because I want to grow faster, so as to be able to repay you. And that is a project that we should sit down and agree on together, if you want your taxpayers to be paid, which is what we want, because we are a proud people, like your people are proud. We don't like having debts that we don't repay. But at the moment our economy has shrunk so much, we can simply not find the 312 billion that we owe. I'm not recommending that we shouldn't. All I'm saying is: help us grow, so that we can repay. This is what a union is.

As far as your point, sir, is concerned, I agree with you. We are a union of social values. We should be in this together. I do believe that every nation in Europe should become more German, like Germany should become more southern, more Mediterranean. This is the whole point about the melting pot. It's the whole point about getting closer together. One difficulty about all of us becoming German is that we can't all have a trade surplus, unless we manage to discover ways of exporting to the universe. What we need... Germany's always going to be a surplus country because you have this magnificent industry and you should be proud of it. But we should all get together and find ways in which your surpluses can then fund investment projects in Italy, in Greece, in wherever, in the whole of Europe from which the Germans benefit and which are sustainable and don't create bubbles which then burst, creating problems for your taxpayers, my taxpayers, the whole of Europe.