

THE BROOKINGS INSTITUTION

RIISING TO THE CHALLENGE OF CHANGE:  
GREECE, EUROPE AND THE UNITED STATES

Washington, D.C.

Monday, March 8, 2010

PARTICIPANTS:

**Introduction:**

STROBE TALBOTT  
President  
The Brookings Institution

**Moderator:**

KEMAL DERVIS  
Vice President and Director  
Global Economy and Development  
The Brookings Institution

**Featured Speaker:**

HIS EXCELLENCY GEORGE A. PAPANDREOU  
Prime Minister of the Hellenic Republic

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ANDERSON COURT REPORTING  
706 Duke Street, Suite 100  
Alexandria, VA 22314  
Phone (703) 519-7180 Fax (703) 519-7190

## P R O C E E D I N G S

MR. TALBOTT: Good morning to all of you. I'm Strobe

Talbott. Welcome to Brookings. Welcome to spring in Washington. We're ready for that.

And welcome especially to the Washington diplomatic corps, which is particularly well represented here today, and I might add that the Athens diplomatic corps is pretty well represented too by Dan Speckhard, United States Ambassador to Greece, a very dear friend and former colleague of mine and several other people in the room.

This is going to be an especially timely event, and it features an especially distinguished guest of honor. Americans like to think of their country as the world's oldest modern democracy, going back all the way to George Washington. Well, the George who is with us today traces his political heritage back to Pericles.

Prime Minister Papandreou is a leader not just of his own country but a leader of Europe. He is a champion for everything that's good, everything that's best about the idea and the institutions of the international community. He is also a great friend of the United States of America.

He has many personal friends in this country, in this town, in the White House, in the Department of State and in this room, and I am proud to be one of them. Back in the 1990s, I worked with him on some of the most challenging issues of that period, some of which are all still too much with us today. He was then and he is now a statesman of rare discipline, ingenuity, integrity, and I want to stress this word particularly, political courage.

He was then and is now a problem-solver, and it was in his capacity as a problem-solver that he decided on assuming the prime ministership of Greece to retain, at least for a while, the portfolio of foreign minister, so that he could follow through on his commitment to resolve longstanding regional issues, so that Greece can play a larger role on the world stage.

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As a problem-solver, he's also got his work cut out for him on another front, which is to say the home front. When Ambassador Speckhard, Bill Antholis, Martin Indyk and I saw him in Athens last October, a week after his election, Prime Minister Papandreou knew then that the biggest of the problems his country was facing was its troubled economy, and those troubles of course are linked to the troubles of the world, and of course they're consequences of the financial earthquake of 2008 whose epicenter is here in this country.

Like President Obama, whom he will meet tomorrow, Prime Minister Papandreou inherited a crisis, but my guess is when the two of them meet tomorrow they will not spend much time commiserating or looking backwards. Rather, they're going to concentrate on coordinating and cooperating and looking forward.

We look forward to hearing whatever he wants to share with us about how he and his fellow leaders will meet this challenge.

Following his remarks, our Brookings colleague and another of the Prime Minister's many friends in the United States, Kemal Derviş, will moderate a discussion. It's hard to imagine a more appropriate moderator since Kemal successfully managed a financial crisis of his own as Finance Minister of Turkey.

So, ladies and gentlemen, please join me in welcoming to the podium the Prime Minister and Foreign Minister of Greece, George Papandreou.

George.

(Applause)

PRIME MINISTER PAPANDREOU: Thank you, Strobe. It's an honor to be here again in this great institution.

And, ladies and gentlemen, dear members of the diplomatic corps, it's great to be with you and particularly to see Paul Sarbanes here, a very old and good friend from

many years ago. We've been working together and his contribution to the United States of course but also to Greek-American relations has always been paramount and very important. And I'm very happy to have Kemal Derviş here as a moderator.

Ladies and gentlemen, 53 years ago this week, on March 12th, 1947, President Truman rose before a special joint session of Congress. He was there to warn America of a looming new crisis, a crisis that revolved in part around Greece but was in essence a European crisis, one that directly affected America's interests. In that speech, President Truman introduced a vision and laid down the sturdy foundation for policies and institutions, such as the Marshall Plan and the Bretton Woods arrangements that enabled our two continents to rise above the crisis and build an unprecedented era of shared peace and prosperity.

So today I have come to Washington this week to speak about another crisis in Europe. This crisis too revolves in part around Greece. This crisis too very much involves America's interests. And as in 1947, if we act with sufficient foresight, I believe this crisis also contains opportunities, great opportunities to strengthen our respective countries and our shared interests for decades to come.

What is this crisis? I would call it a crisis in global governance. As we basked in the triumph that the end of the Cold War symbolized for the West, we forgot three important elements.

First of all, the world's problems were not over. No, history had not ended. New conflicts, new issues and new complexities of a globalizing world arose.

Secondly, we underestimated our own dogmatism. While those on the other side of the Iron Curtain worshipped state-run economies as master, we had created our own masters -- the free market. The master and the masters are not to be tampered

with. They rule, forgetting that in democratic politics our master is the people, and both state and the market are there to serve them.

Thirdly, we neglected our transatlantic relationship, either by paying lip service to it as something matter of fact or as something irrelevant to the new challenges of the time.

So off we went with our respective, often narrow politics as the world was changing and as the balance of power was shifting. That has undermined the extent to which our common values remain a dominant force in the shaping of this new globalizing economy and society -- values such as democracy, the protection of human rights, the rule of law.

The core of the crisis is that today the international community seems impotent -- impotent to deal with the complexities of an interdependent market, or the new threats of global warming and competition for energy resources, or the spread of violence, terrorism and the proliferation of nuclear weapons, or inability to solve protracted conflicts such as the one in the Middle East.

My conclusion is that cooperation between Europe and the U.S. must be revitalized to empower our countries, societies and our citizens, so as we deal with these issues effectively and democratically.

How does this relate to my country, Greece? You are all aware of the financial crisis Greece has faced in the recent months, the crisis that confronted me when I became Prime Minister last October. After we took office, we discovered that the budget deficit was actually double -- double what our predecessors had told us, told the European authorities and the Greek people. So our announcement of this discovery rocked investor confidence, not only regarding the finances of Greece but also the soundness of the currency we share with our European neighbors.

All of you understand that this crisis, like Wall Street's original crisis in 2008, risks spreading more widely. Many worry it could reignite the global financial crisis and

produce a Crisis 2.0. That's why in the past five days I met with Chancellor Merkel and President Sarkozy and previously visited with Gordon Brown and José Luis Zapatero, to convey my ideas on how to resolve this ongoing crisis and how to prevent it from spreading. And that is why I will meet tomorrow with President Obama, not only as a Greek leader but also as a European leader, to discuss the important role I believe the United States can play to ensure Greece, Europe and America that we remain strong and healthy partners.

Let me exemplify the Greek case. I stood for election last fall before a country that was demanding deep changes. During the preceding five years, our public had grown increasingly alienated as Greece's national deficit ballooned, wasteful expenditure mushroomed and our GDP shrank.

During our election campaign, we promised to tackle head-on the chronic problems at the heart of Greece's economic woes -- structural problems that we often, our politicians, had avoided addressing for so long, for such a long time. Our goal was and remains to transform Greece into a thriving economy, driven by green technology and investment in our natural and human resources such as education and health.

So when my party won a resounding electoral majority, we knew our mandate -- like the mandate of your own President, your new President, President Obama -- was to bring deep changes even at a time of great economic challenge.

Now I am used to change. I was born in Minnesota and raised in California, before eventually moving to Athens, and then when my family was forced to flee Greece during the dictatorship we lived in exile in Canada and in Sweden.

And throughout my political career, I have often taken office during times of crisis, as Strobe mentioned earlier. I became Education Minister during a teachers' strike. I became Foreign Minister just as Greece was entering one of its most fraught standoffs

with Turkey. I took over as leader of my party in 2004, just a few weeks before an election that we were quite certain to lose. And now I have become Prime Minister during the greatest economic crisis Greece has faced since the Second World War. So confronting upheaval and the need for big changes has been an integral part of my life.

Even so, that doesn't make change any easier. The enormity of Greece's deficit made the imperative of deep changes absolute, and now the changes are underway. To restore confidence in our country and stability to our economy, we pledge to bring the 12.7 deficit down to 8.7 this year, and to the E.U. mandated levels of 3 percent by 2012. To meet those targets, the Parliament has adopted the toughest austerity measures in Greece's modern history. The third round of those measures passed just last week, on Friday.

And we know Greece faced not only a fiscal deficit, but I would call it a credibility deficit. As a matter of fact, I call that the biggest deficit we had as a result of the fabricated budget figures our predecessors had published. So our partners in the European Union were understandably skeptical about our promises to rein in the deficit and crack down on issues such as corruption, but today we are demonstrating the decisiveness of Greece.

Public sector salaries have been cut, retirement ages raised, taxes increase, and these are painful choices. They have come with high political and social costs. We have made them not only to rescue our own economy but also to prove our courage and our credibility. We do so also because we are part of a genuine community, the European Union, and all these measures reflect our commitment to protect the stability of our common European currency.

This medicine may be bitter, but it is only an immediate remedy as we must deal with other core problems that have prevented Greece from reaching its great economic

potential -- and there is great economic potential in Greece -- for far too long. So I've told the Greek people that 2010, this year, must be and will be a year of drastic reforms across all levels of government -- changes in our tax system, our social security system, our public administration, our education system, our health system and our development model.

At the top of the list is tax evasion. To give you just one measure of the scope of that problem, fewer than 5,000 Greeks declare incomes of \$100,000 Euros or more, and that pattern must end, and it will end. We will be prosecuting offenders, no matter how rich or powerful, to show that we mean business. The rule of law means that the law applies to all. Such changes, we are sure, will bring in billions of unpaid taxes and help underpin our return to fiscal health.

We're also tackling the challenge of corruption head-on. Within the first weeks of my administration, I dismissed a deputy minister and friend who was trading minor favors for voters. Corruption, of course, is hardly unique to Greece, but it is a problem we are determined to address as part of our broader reforms.

To usher in a new norm of transparency, we are televising our cabinet meetings.

We have launched an open online application process for public sector jobs, even at the highest of levels, and passed a law so that every government expense will be published online, a first in Europe. Every signature, from mine to the civil servants in local government, will be online.

We post all our proposals on the web to allow for deliberation and participation in a Web 2.0 application which empowers our citizens, puts a check on lawmakers and strengthens the quality of our policies.

This are among the changes my government has made and will pursue in response to this crisis. So I'm confident that Greece will very soon be a paradigm of



open government, a leader in green development, as Greece has great untapped potential for renewable energy but also a real magnet for new business investment.

But there are two other seminal points I want to stress today, ones that touch on the longer-term challenges and our shared responsibilities for building a stronger global economy.

The first point is that while we must all respond with urgency today, we must also plan for the long term. The architects of the post-war recovery of Europe and the transatlantic community leaders like Adenauer, Schuman, Willy Brandt and Truman had an eye on what made sense, not only for next week, not only for next year, but for the next generation. So it must be today. The crisis the world has faced over the past few years should alert us to the fact that we need more cooperation, we need regulation and foresight.

My own people, the Greeks, understand this. The majority of Greece recognized that the very difficult changes we are making are in our own long-term interest, and there is wide public support for these reforms, and I would say much more than in previous times in my country. I see this every day.

Even those who have volunteered to help, such as well-known singer Nana Mouskouri, who has given her pension back to the state, who spoke about Greek philotimo. Philotimo is a word that is difficult to translate, but it means a sense of pride, a sense of honor, in giving to the common good.

Europe, on the other hand, needs to recognize that the measures we have put in place and those still to come need a certain time to take effect. Countries are not like financial markets. Social change cannot be executed as swiftly as credit default swaps. You cannot sell short on social commitments and political responsibilities. So, although there are great risks in the current crisis, there are equally real risks in

unrealistic expectations and inflammatory impatience, some that we have seen in the press around the world.

So it's dangerous to push people too hard and too fast. For example, Greece already has one of the lowest wages in Europe. The average wage in Greece is just under 24,000 compared to just over 40,000 in the U.S. We intend to reform our economy with the help of our citizens, not in spite of them.

Here, this is where Europe needs to join us in taking a longer view because certainly we need our budget cuts, but at the same time we need to have sustainable economic growth. And if we're not careful, both higher taxes coupled with lower revenue could actually slow down our recovery. That would be both unjust but also could create a lot of social unrest. Deflation is also a genuine risk if we don't take parallel measures to kick-start productivity and create new jobs.

This is not about asking Europe to rush to the aid of a reckless country. On the contrary, standing by Greece as it makes deep and responsible reforms is in the interest of Europe as a whole, and this I think is now understood by the leaders, the other leaders in the European Union. So the price of not acting together will be higher taxes, higher unemployment, a slow economic recovery, not only for Greece but for all in Europe.

So Greece may be doing all the right things to revive our economy, but not everyone may want us to succeed, and this brings me to my second point -- the need to address the threat of speculation and ill-regulated financial markets, a threat that imperils not only Greece but the entire global economy.

I see that threat every day as we manage this crisis, for the immediate problem we face is not dealing with the recession but in servicing our debt. Despite the deep reforms we are making, traders and speculators have forced interest rates on Greek bonds to record highs. Many believe that there have been malicious rumors endlessly repeated

and tactically amplified, that have been used to manipulate normal market terms for our bonds. Partly as a result, Greece currently has to borrow at rates almost twice as high as other European Union countries. So when we borrow 5 billion Euros for 5 years, we must pay about 725 million Euros more in interest than Germany does.

It would be like let's say California having to borrow at a rate with 5 billion Euros which would mean that they would have to pay 725 million U.S. dollars more than another state in the U.S.

And when you have a common currency that is simply not viable. So we will have a very hard time in implementing our reform program if the gains from our austerity measures are simply swallowed up by prohibitive interest rates.

This whole affair has a horrible sense of déjà vu. The same financial institutions that were bailed out with taxpayers' money are now making a fortune from Greece's misfortune while those same taxpayers are paying the price in deep cuts to their salaries and social services. So unprincipled speculators are making billions every day by betting on a Greek default.

All this may sound a bit familiar to American ears. Yet, unlike the bankers, Greece isn't asking for a bailout, let alone a bonus. Indeed, we have slashed the salaries of every single government official. I myself and my cabinet members have all taken significant pay cuts in our salaries.

Yet, our correct decisions may still be undermined by speculation, and to me this is a challenge to our democratic institutions. An elected government making huge changes with the consent of its people is being undermined by concentrated powers in an unregulated market, powers which go beyond those of any individual government.

A further point is that even though Greece accounts for just about 2 percent of GDP of the European Union, our economic conditions can have a far larger impact than

that figure implies. An ongoing euro crisis could cause a domino effect, driving up borrowing costs for other countries with large deficits, and causing volatility in bond and currency rates across the world. A small problem could be the tipping point in an already volatile system.

We should remember that the Great Depression in the U.S. was followed by a second recession in 1937 and 1938 that derailed the world's recovery and prolonged the crisis. So, if the European crisis metastasizes, or any other crisis around the world, it could create a new global financial crisis with implications as grave as the U.S. originated crisis two years ago.

So, for America, a weak euro also means something else. It could mean a rising dollar. That, in turn, means a rising U.S. trade deficit, which will not help America's economy rebound. If the E.U., still America's biggest trading partner, should falter, the consequences here would be palpable. That's why Europe and America need to work together, to say enough is enough to these speculators who only place value on immediate returns with utter disregard for the consequences of the larger economic system, not to mention the human consequences of lost jobs, foreclosed homes and decimated pensions.

These market manipulations which were at the heart of the banking system's collapse are still legal practice. So it's hard to fathom that we have allowed this to continue after what we went through. It is common sense, enforced by insurance regulators, that a person is not allowed to buy fire insurance on his neighbor's house and then burn it down to collect on that insurance. Yet, that is exactly what is done in the market for credit default swaps. This malaise has led banks to foreclose on the homes of millions of Americans, but this malaise now haunts not only Greece but all of us.

But if Europe and America jointly step in and shore up global financial regulation and finally ensure enforcement of these regulations, we can curtail such activities. It is an encouraging sign that the American authorities have ordered some speculators not to destroy records of their trading in Euros, and I would encourage U.S. authorities to continue these investigations.

Since the 1980s, we have witnessed a succession of global financial crises, the third world debt collapse, the U.S. savings and loan debacle, the Asian financial crisis, the high tech and housing bubbles and now the worst global recession since the 1930s. Globalization, which promised so much and opened so many doors to those of us with the good fortune of advanced educations and careers, has also brought new inequalities and new risks. So this crisis is an opportunity to correct many of the excesses of the globalization. It calls for deep structural changes -- changes to our global institutions, to our system of global governance.

At the G-20 in Copenhagen and at the meeting in Copenhagen for climate change, we did fall short of our citizens' expectations. We fell short of our own rhetoric. So we can't afford to squander another opportunity to make the critical changes that our current reality demands.

This crisis should be an opportunity for decisive and collective action, for regulation which is urgently required if global economic growth is to be sustainable. We need global coordination of monetary policies, and if we let market forces alone dictate the terms our economic recovery will almost certainly slip into reverse.

I just arrived from Paris. Before that, I was in Berlin and in Luxembourg. Together with my European partners, we have taken a common initiative to strengthen financial regulation, particularly vis-à-vis speculation. We need clear rules on shorts, naked shorts

and credit default swaps. So I hope that there will be a positive response from this side of the Atlantic to bring this initiative to the G-20 in its next meeting.

I know that some fear the word regulation. They claim that regulation curtails our freedoms, but I would simply say that it's like saying that we should go without traffic lights as it slows down our cars. So let's make the markets work for us.

All of this is possible if we -- Greece, Europe, the United States -- have confidence and trust in each other as partners.

There was a debate for some time about whether the European Union would work and then whether it was better for it to be weak or strong, particularly vis-à-vis the euro. Even now, there are debates about whether the new Europe is a force to be reckoned with, its global role strengthened by our new President and High Representative, or whether it is a nonentity of a continent disappearing off the map as *Time Magazine* would have us.

My view is that the world needs more Europe today, not less. In saying so, I would like to say that Europe, the European Union as a model, as a prototype, is a very interesting experiment in a globalizing world -- a world which is in need of a more humane globalization. We are a political union of 27 nations today and a monetary union of 16 members. Each of us brings our own experience, our own idiosyncrasies, even our own language. Imagine uniting America if a different tongue were spoken in every state.

But we have been a catalyst for great progress, prosperity in the region and democratization of many countries. With a whole raft of global crises urgently calling for closer global cooperation, we in the European Union have pooled some of our national sovereignty to become more effective in protecting our common interests vis-à-vis these world challenges.

Creating our common currency, a currency shared by 328 million Europeans and backed by an economy larger than America's, is perhaps Europe's greatest achievement. The euro has been called a post-modern or a post-sovereign currency. Whatever we call it, we European leaders must now show real leadership to prevent unbridled market forces from hijacking this success story for their own ends. I'm confident we'll succeed and we cannot fail.

There is reason to have confidence in my country also during this crisis. We have shown determination, and I think this is a sign which shows that we'll be ready to use this crisis as a real opportunity for change. I say that because a decade ago, when I launched the process of Greek-Turkish rapprochement as Foreign Minister, everyone said that it was doomed to failure. But our countries are closer than they have been in centuries, and there's no better symbol than the fact that my good friend Kemal Derviş is moderating this discussion.

I also look forward to Turkish Prime Minister Tayyip Erdogan's visit to Athens in the coming months. I believe we can make new breakthroughs in our relationship and become a symbol of stability in the eastern Mediterranean and the Middle East.

Prior to the Athens Olympics, so many voices said Greece would fail, but we pulled off one of the most secure and successful games in history. Today, we will be using this legacy to revamp Athens and our public administration.

And so, we will overcome this new challenge, and we will do it with the cooperation of our partners in Europe and America who have stood with us on so many vital tests, for this new crisis is a moment of great opportunity for Greece, the chance to modernize and revitalize its governance and development model.

For Europe, a chance to become more fully integrated -- we're talking now about more coordinated economic governance, for example.

And for the world, this is the moment to move towards greater democratic cooperation at a time when once again the global power of poorly regulated markets is proving dangerous for us all, yet well-regulated markets can truly lift our people to new heights, and our economies.

At its heart, our very modern global economy faces a very ancient challenge which I'd like to simply conclude with. Before the advent of democracy, Greece's city-states were ruled by rich and ruthless oligarchs who belonged to powerful interrelated clans, not altogether unlike the mergers between powerful financial institutions that dominate today's global market.

Plato then made a critical remark about a system controlled by vested interests of a minority elite, and he characterized the system as one where, and I quote, "Just or right means nothing but what is in the interest of the strong party," -- not the rule of law, but the law of the powerful. So we have a shared responsibility to create rules and institutions that can provide a more just and sustainable answer for our planet.

Let me take you, in concluding, to the Parthenon as I finish my speech. If one stands by the Parthenon and looks down on Athens, you will see not only the new Acropolis Museum waiting for the return of the Parthenon marbles, on the other side you will see the ancient market, or agora in Greek.

Agora in Greek has two meanings. It means marketplace, but it also means public speaking, a place of politics. So ancient Greece should guide us here in saying that the market is, and must be, part of the realm of our political decisions, and we have separated the two as if they can be separated.

If you look over the hill to the other side, you will see the Pnyx. There, each and every citizen could stand on a rock, speak and be heard. Politics in ancient Athens was participative. Everyone had the power to be heard.



So we must use the new means we have, such as the internet, but not only, in our globalized society to empower our citizens and give them a real voice in politics. And that's much more than just a technique. It's a question of political will.

As you look towards the sea, you will see the islands of the Aegean. In ancient Greece, every island was a country unto itself, a city-state, yet they all were aligned to a common purpose, the protection of democracy and common values. So, let's use our countries as a vast--let us see our countries as a vast sea of diverse islands linked by a common set of values and that is what Europe is striving to be.

The ancient Philosopher Isocrates said, "Being Greek is partaking in Greek education," meaning, very simply, sharing in common values. Greece has long been America's partner in values and in history. We are determined to be an ever stronger partner for the U.S. in world affairs, in commerce, in culture, in security.

So, now I ask you to stand with us and work with us again as we each confront our own challenges of change, as we work together to realize our shared interest in a strong Europe and a sound global economic system. Thank you very much.

MR. DERVIS: Mr. Prime Minister, thank you very much on behalf of all of us at Brookings of this great audience here, for this powerful speech.

Let me start the discussion by asking, how did things happen so quickly? Six months ago there were difficulties, but, you know, there was not a major crisis.

I've known you many years. I've had the honor of working with you in various seminars and conferences and workshops. You've always stressed the importance of transparency, of citizen's participation. What role do you think did the lack of transparency have in the emergence of this crisis?

PRIME MINISTER PAPANDREOU: Thank you, Kemal. I think that when we're talking about this financial crisis, we should see that it is a challenge to our democratic

institutions. Politics around the world, we are representatives of our people, sometimes we're often tasked and seen by our people as all powerful but in fact there are powers much stronger than us and in other parts of the world, can corrupt politics, in other politics of the world can simply lobby enough to change politics, but will very often undermine the will of the people, if you like. And what we have had and we have seen in this financial crisis is that there were all kinds of innovations, as they were called, or all kinds of practices which were too opaque, too non-transparent, for, first of all, us to understand, but then to actually see and if we were able to have transparency, I would say immediately we would have had much more possibility to prevent the crisis as it unfolded.

In Greece, particularly we had a lack of transparency even to the fact--to the point where we didn't have the right numbers of what our deficit was. And the lack of transparency there also has at times allowed for decisions which are clientelistic, which are more based on party politics voting, not meritocratic, bloating, very often, the public sector is becoming part of a party machine rather than part of an engine to help both growth but also protect our citizens' rights. But also it helped to develop a lot of corruption, corruption from local, from the grass-root level, the day-to-day level in civil services all the way to the political level, to the higher level, and that's why transparency, for me, is very important because what it does do is first of all exposes these possible wrongdoings, but secondly, in a democratic society, basically gives our citizens and our different bodies that become part of the democratic--they're all part of the democratic process where there's the legislative or executive or judicial bodies, to be able to apprehend and control these types of activities.

So, bringing back transparency or bringing transparency to our system is, I think, one of the prerequisites not only to deal with a crisis such as the financial one we felt which we went through, but also it's a way of giving and empowering our citizens again to be part of our political life and not feel alienated from the decisions we often take.

MR. DERVIS: Well, you said you were going to televise some or maybe all of your cabinet meetings. I think we're going to do a session at Brookings watching one of these cabinet meetings. I think that will be great.

Now, you know, at the time of crisis, of course, sacrifices unfortunately needed, and I know you're taking very tough measures, 4 percent of GDP getting in one year in terms of the budget cuts, and unfortunately the sacrifices fall even on people who are not that strong, not that wealthy, although I'm sure you're trying to make everybody pay their fair share. But as the recovery will come, and, you know, in these things one does recover, there have been very experiences of crisis and it looks terrible but then two years later all of the sudden growth is back, but often what happens is that the fruits of that recovery are not very well spread.

Do you have already any thoughts—I know it's hard now that you're in the middle of this crisis, but thinking of how to make that recovery benefit, really, the average citizen in Greece?

PRIME MINISTER PAPANDREOU: Well, thank you, Kemal, and of course you've gone through a similar crisis in Turkey and you know what this means. I think the basic prerequisite for people to feel that they can actually support, even though they may not be happy and we're not happy with these measures, but they can support these measures is that first of all, there is a prospect in two, three years, as you said, for recovery, putting our finances into order and creating a much more viable economy, but secondly that these changes will be just and obviously we have taken some immediate measures, some emergency measures, and they are not necessarily as just as we would like because, for example, we are cutting down the deficit by cutting down wages and those who actually have their wages out in the open and declare their wages are the ones that will have their wages cut while those who tax evade will not really feel this. So, this is why we are moving

into other types of changes which will bring transparency, which will change the tax system, which will redistribute in a more just manner the tax revenues, and burden, if you like, of the tax system, so that people in the end will feel that we not only have taken this very bitter medicine now, but we're actually creating a much more just and viable system.

I would add a third element to this that obviously with these austerity measures we need to see the other side of the stabilization program in the European Union, it's called, officially, the Stabilization and Growth Plan, and the other side, of course, is the growth area where we need investment, that will be public investment, there will be EU funds, which we are allowed to have for public investment and infrastructure, but we also will be looking for private investment and I think this is a time of opportunity for investors to come and see Greece at a time of change where we are cutting down on bureaucracy, cutting down on corruption, making it much more easy to invest, but also moving into, as I said earlier in my speech, a green economy, making green economy the driving force of our economy from tourism to agriculture to the Mediterranean diet, to our services, which means quality products and competitive products, and this is where we see Greece heading and that's our goal.

MR. DERVIS: You emphasized again in this speech this morning the need for, you said, more Europe and I know you've been a great supporter of the European project for many, many years--decades--and in a way this is a challenge for Europe and also for the southeastern part of Europe, where Greece, of course, plays a particularly important role and you've played a very important role. Could you, perhaps, before we open it to the wider discussion, say a few more words about Europe, the European project, which is in a way at the crossroads, but maybe this crisis in some ways can help? And also about southeastern Europe, the whole enlargement issue given the economic difficulties, where do you see it going?

PRIME MINISTER PAPANDREOU: Well, if we go back to the origins of the European Union as it is today, we're talking about a post-World War II Europe where the major factor in developing a European market at that point was--common market and then the European Union--was pretty much a peace project even though it began with the economy. As a matter of fact, the idea was to interlink the economies in such a way so that there would be no desire for war as that would be catastrophic for both sides or all sides, if you like.

So, it has been a peace project and I would say--people sometimes underestimate the importance of the fact that the European Union over the years has brought in countries, for example, breaking the divide between the east and the west of the Cold War. That is a huge peace project.

With it also is a democratic project, a project of democracy, bringing in countries that were formerly dictatorships, Greece, Spain, Portugal, but also many of the eastern and central European countries that were under communist regimes.

And thirdly, of course, it is an economic project with social cohesion. The whole idea of social cohesion is very important and many of the countries of, particularly the south, had--and when we talk about the south sometimes we bring in countries like Ireland too, even though they're not exactly in the south of Europe, but now when we're talking about central and eastern Europe where European funding has helped to equalize the differences--the economic differences in Europe.

I would say that today Europe more and more will be evolving and this is the challenge and that's why I think this financial crisis can be an opportunity, not so much as an answer to the past of world wars, although when we get to the Balkans, I think--and Greece and Turkey and so on--and Cyprus--that's where we can see--

MR. DERVIS: The peace part.

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PRIME MINISTER PAPANDREOU: --that Europe can play a very important role in putting these conflicts to the past by helping the solution to many of these protracted conflicts.

But I feel that it's also looking to the future of how do we want to structure regions in the world in a globalizing economy? How do you get sovereign nations to pull their capabilities in a peaceful way so that we can deal with problems which go beyond us, such as climate change or the financial globalizing economy? We need to work together. We need to manage this planet. We need to have some form of governance of this planet. What kind of governance? Well, now, I'm not saying that European governance is always as efficient and as quick in responding as one might want, but it is a new model of governance which I think we need to look--and democratic governance and how we deal with the world.

Just one more point on the Balkans and Turkey, the importance of the enlargement is in fact--and we call the word enlargement, it sounds very neutral, just sort of a growth--growing geographically--but in fact enlargement is much more. It's sharing deep-held values and institutionalizing these values within the countries that become members of the European Union. So there's a process where countries apply for membership, it would be like, let's say, a Latin American country or Mexico or some other smaller countries, if they wanted to apply to become a state in the United States. Well, what would be the rules and the prerequisites for that kind of a change? Well, this is what Europe has been doing.

I have been a proponent of moving ahead both with the western Balkans, countries like Albania, former Yugoslavic Republic of Macedonia, Croatia, Serbia, Bosnia-Herzegovina, so that we move--and they are now, most of them, candidates or potential candidates. They are--I have proposed and Greece has proposed that we put a date to their accession, which would be 2014. Two-thousand fourteen happens to be 100 years after the

beginning of World War I, which began in the Balkans, in Sarajevo, closing a circle of violence and instability and again showing how Europe is a peace project.

I also see that with Turkey, and I have been a proponent of Turkey becoming a--having the capability and becoming a member of the European Union, of course having to fulfill its Copenhagen criteria, as we call them, and a number of criteria which have to do with good neighborliness. Obviously Cyprus, obviously has a relationship with Greece. Now, I have been a proponent of this, and this was a major change, as you remember, of policy ten years ago in Greece where we said--where we had blocked the possibility of Turkey being a candidate and then we said--we changed that policy and said, let's make Turkey a candidate and have full capability of becoming a member of this European Union, saying that that in fact would be a stabilizing factor for our region, it would be an important message for the world as Europe is bringing in a country which is predominantly Muslim and showing that the values we share have nothing to do with what religion we may believe in, and thirdly, in doing so we would solve problems such as the Cyprus problem, but also issues that have to do with a bilateral relationship within Greece and Turkey.

So, I continue to be a strong proponent of this proposal and I do hope that in meeting with Tayyip Erdogan, the Prime Minister of Turkey, we will be able to make more moves on issues that have beleaguered us and held us back over the many years, the last decades.

MR. DERVIS: Thank you very much. And I hope the crisis will end soon so that more of your time will become, again, available also for these important regional and peace issues. I do remember your visit with Ishmael Gem, I think, in Israel and in the Palestinian territories and, you know, how together as a Greek foreign minister and a Turkish foreign minister, you gave the message to Israelis and Palestinians that one can

work together and go forward together.

So, let me now open the floor to questions from the audience. Please do identify yourself briefly so that we all know where the question is coming from and please make sure to address the question to the Prime Minister.

Uri Dadush, yes. Please identify yourself.

MR. DADUSH: Uri Dadush with the Carnegie Endowment. Thank you, Prime Minister, for that very eloquent rendition and also best of luck on the tremendous challenges that you face.

I wanted to bring back a little bit to the economics. You mentioned the budget deficit. According to numbers we've been looking at, Greece has lost 30 percent in competitiveness against Germany in the last ten years. Unit label costs have risen by 30 percent relative to those of Germany, and by more than 50 or 60 percent relative to those of the United States because of the fall in the dollar, et cetera.

Now, my question is, how do you regain that competitiveness in a situation where you have no control over your currency, you have part of a (inaudible) currency, no control over monetary policy? Is it realistic that Greeks will take 20, 30 percent wage cuts in order to reestablish competitiveness or that they will increase their productivity so rapidly? Thank you.

MR. DERVIS: I think what I will do is I will take three questions in a group and then let the Prime Minister answer because there will be overlapping parts of these questions.

SPEAKER: (inaudible) representing (inaudible) policy oriented Turkish business organization here in Washington, DC. Mr. Prime Minister, thank you for your remarks. Your election as Prime Minister was, as you know, very well--was very well received in Turkey and there were high hopes that your election would bring a new impetus



to the ongoing Cypress negotiations. And as your remarks suggest, you have to spend a great deal of your time and energy in tackling with this economic crisis and I know how much you are willing to go back to your foreign policy issues.

But my question is, what do you think about the Cypress issue and where is this issue headed as it is a major issue poisoning Turkey's relations with the EU as well?

Thank you.

MR. DERVIS: Yes, in the back there?

SPEAKER: Mr. Prime Minister, John Sidaletes. It's a pleasure to welcome you back to Washington. I wanted to ask you--

MR. DERVIS: Please, just identify quickly. Could you just identify yourself quickly?

SPEAKER: John Sidaletes.

MR. DERVIS: Okay, fine.

SPEAKER: If I can ask you, Mr. Prime Minister, much of the speculation about your policies over the last several weeks pertain to the amount that Greece might be asking of the European Union or whether or not an IMF package might be put together. We heard none of this in your remarks this morning and none of this seemed to have come of your visits to Germany and to France. Can you please specify for us what it is that your government is requesting, if anything, from either these governments or international institutions? Thank you.

MR. DERVIS: Thank you very much. I'll take one more and then--yes?

MR. LARIGAKIS: Nick Larigakis, executive director of American Hellenic Institute. Welcome to Washington, Mr. Prime Minister. Mr. Prime Minister, I just wanted to pick up on your discussion you had with Mr. Dervis regarding right now that Greece is looking more and more obviously for private, direct investments, it's to that point I want to

ask the question. If this was a room of American corporate executives rather than diplomats and reporters, what would you tell them right now in terms of trying to entice them to say why Greece is still a good investment opportunity? If you could speak more specifics regarding possibly Greece's investment laws, regarding any reforms that are taking place there and any incentives that would be forthcoming from the Greek government at this time to entice foreign direct investment.

MR. DERVIS: Mr. Prime Minister, I think we'll turn to you now after these four questions.

PRIME MINISTER PAPANDREOU: Fine, well, thank you very much. I'll start with the economic questions. First of all, we have said we're not asking for money. As with most countries or many countries, we go onto the international market to borrow for our needs and what we are saying is that since we now are putting our finances into order, making our long term economy viable, and making the necessary changes, we should be able to borrow at rates which are comparable, if not exactly the same, as other countries in the Euro Zone.

As I said, if you had states--different states in the United States borrowing at different rates, that would make it very uncompetitive for different regions in different states in the United States. Now, that's what's happening now when we go out to borrow and we have double the rates of other countries.

So, what we are saying, from our European counterparts is, we're not asking for money, we're asking for the types of instruments which are necessary that if we see speculation and if we see the markets not responding to what we have done and would have done even if we were under the IMF, that there be a contingency plan which would make sure that we can borrow at normal rates. That's what we're asking for. We're not asking for free money. We're not asking for bailouts. We're asking for the right to have

similar rates of borrowing as other countries. That is where we need coordinated action and that is where the European Union now is moving in that direction in a positive way, and as I said, with both Chancellor Merkel and yesterday with President Sarkozy, the two biggest economies in the European Union, who are also truly ready for systematic action, as they have called it, coordinated action, if the Euro Zone is--and the financial stability of the Euro Zone is threatened. And that's what would happen if Greece would not be able to borrow or would have to borrow at very, very high rates.

So, what I had said about--what I have said about the IMF is that in a different situation, if we didn't have the Euro Zone or this Euro Group, a country like Greece may, may not, but may at some point, if it couldn't borrow, would have to go to the IMF. We haven't had that problem up to now because we can borrow. We've been oversubscribed when we go out to the markets, but we've been borrowing at a high rate.

So, again, that at some point we may have to--we would have--may have had to go to the IMF.

Since there seems to be a developing European contingent plan, and this is what I've been working on with my partners in the European Union, I think that lowers the possibilities that will--even if there is a problem, we would have to go to the IMF.

So, again, what we're talking about now is creating, at this point, an ad hoc instrument which will help the Greek economy, if in need, when we want to borrow, and in the medium term, look at the necessary institutional changes in the European Union such as, for example, Euro bonds, or, for example, a European Monetary Fund or a European guaranty which would mean, of course, possible changes in the treaty, but that would mean, therefore, it wouldn't be an immediate response. But that now has become very central in the discussion in Europe. So, I would like to see that the European Union now, because of the Greek crisis, and I'm trying to spearhead this--that we went through--is something which

we can make an opportunity to strengthen our coordination and create the necessary institutions in the European Union.

What we can do right now is take an initiative on dealing with speculators and that's why we're taking some joint political action from myself, Angela Merkel, Nicholas Sarkozy, and Jean-Claude Juncker from Luxembourg, he is head of the Euro Group, and I will be able to communicate this also to President Obama tomorrow because I believe this needs coordinated action throughout the world.

Secondly, the issue of Greek competitiveness and what we would say-- what I would say to the--to U.S. businesspeople if they were here. First of all, Greek competitiveness, yes, there is a question of the wages, but that's not the only factor for competitiveness. I know there's been a lot of emphasis on wages in Greece, but we have to also differentiate between public wages and private wages. There's a big difference there, and we--and investors come in and when they come in they want to look and see what private wages are and the private sector, not the public sector. Now sometimes the public sector will set the tone for the private sector. What happens in the public sector is the fact that we have a bloated public sector, a much large public sector than necessary, and in some--a somewhat chaotic salary scale where you have some very, very high wages, which are exorbitant, in the public sector, and some very, very low wages also in the public sector, so that's another area which we will be streamlining.

Now, what we will be doing, of course, is creating other types of incentives which will also be much more helpful. First of all, the tax system will in fact create incentives for investment. Secondly, it will create a much more lean and simple system for investment, for example, we had--we estimated that to invest in green energy, as we call it, or renewable energy in Greece, simply by going by the book and estimating that there wouldn't be some kind of a glitch on the way, might take five years just to get the investment ready to be

implemented, to be developed and start rolling the company in renewable energy. We have brought a law which we have cut that down to eight months. That just shows how we have cut down on bureaucracy.

We are moving ahead now in making it much more simple to create a company and get through the red tape. So, bureaucracy and red tape is one issue. The second is transparency and corruption. That was another problem sometimes often for investment. That's another area which we're cutting into and that is going to make things much more lucrative.

Thirdly we are also opening up professions so that there is greater competition in areas which were closed professions, and that will be much more important, I think, both for investment but also for bringing down the prices in certain areas.

Fourthly, we're creating incentives for specific areas of Greece, taking, for example, the Aegean Islands which have great wind potential, actually, Greece has the biggest wind potential per capita in Europe, but we haven't developed that. So, we will make the possibility for investment in this area very simple, almost like a one-stop-shop type of investment. These types of areas and these types of changes we are making, I believe, are going to create the--and are creating, because we are doing this already--are creating the environment for a much more effective system of economic development and investment.

I'll just add one more major point which we are doing in our administration. We now have five levels of administration from central to local. There are five levels. That's a huge bureaucracy. We now have proposed, and in the next few weeks we'll be putting it to parliament, a major revolution administration. We will be cutting it down to three levels: central, regional, and local. We will be cutting down the number of cities from something like 3,000 to 350 unifying local government in many areas. And we are also cutting down about 6,000 local government businesses that have been creating huge bureaucracy there.

So there are huge changes now being made in Greece which never would have been made before. I think the fact that we are in a crisis has also helped not only me but our government and I'd say a wider consensus in Greece, to say, yes, now is the time. We've reached bottom. Now is the time for us to make these big changes. Someone I think said--one of Obama's aids, I think, is well know, well quoted to say, "You shouldn't miss a crisis, it's such an opportunity to make changes." And that's what we're doing in Greece.

Now, on Cyprus. Well, this has been around with us for many, many years. I felt we came somewhat closer to a solution in 2004. As you know, the solution had to have the green light from both the communities. The Turkish Cypriot community said yes, then, the Greek Cypriot community was not happy, and we have come back to this and are reexamining this question. But it really needs strong political will.

Now, this is not something that--from the side of Greece--we feel that we want to interfere in a direct way because we see Cyprus as a sovereign nation, even though it is divided because of the invasion in 1974, and we see that the Greek Cypriots--the Greek Cypriot community--has all its rights to decide what the solution will be. That's why what I can do is certainly support this process and certainly in my relations with Turkey to create the necessary atmosphere if Turkey is also responding in a positive way, so that we help things happen on the ground. But on the Turkish Cypriot community, you have 30,000 troops, you have much more direct involvement, I would say more of the Turkish army, maybe less of the Turkish government. I would rather see the Turkish government being more involved rather than the Turkish army in the Cypriot problem, and this is where I think you need a real political will from Turkey to move ahead.

Now, Prime Minister Erdogan did show this will in 2004. I believe he can show this will again. But what we also need to take into account is we need to create a functioning Cyprus, a Cypriot Republic which is functioning, where you have two

communities which will not be vetoing one and another in every decision, which the type of governance is there which allows for a smooth functioning and a smooth functioning within the European Union. Don't forget, Cyprus is now a member of European Union even though de facto, the Turkish Cypriots, because of the situation, they don't have their full participation, although as Cypriot citizens they have all the rights as European citizens, but there are very big issues here that we need to make sure that as Cyprus is a member of the European Union, we must make sure that it is going to be able to fulfill all its obligations as a full and functioning and democratic country in the European Union.

So, that's why we're talking about a federation, bi-zonal and bi-communal, which can be functional and therefore as it is functional, it is also something which will be European. I would also add to this, finally, that the European IKEY is something we need to follow as Cyprus is part of the European Union, and the solution should be colored by the European IKEY. We need to make sure that the European IKEY is applied to Cyprus and to the solution of Cyprus.

If these elements are followed, I believe we can find a solution and I do know that both President Christofias and Mr. Tallat are, as you know, old friends and if they are really allowed to move ahead, and particularly Mr. Tallat, I would hope that we would find a solution as soon as possible.

MR. DERVIS: Thank you very much, and I think we'll have to close it now. The Prime Minister has, as you might imagine, an extremely heavy schedule. Please, everybody be seated because the delegation--the Prime Minister and his delegation will leave first. So, please, may I ask you to all remain seated. Thank you very much, Mr. Prime Minister.

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706 Duke Street, Suite 100  
Alexandria, VA 22314  
Phone (703) 519-7180 Fax (703) 519-7190

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706 Duke Street, Suite 100  
Alexandria, VA 22314  
Phone (703) 519-7180 Fax (703) 519-7190



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