

March 8, 2010

Rising to the Challenge of Change: Greece, Europe and the United States

Remarks by H.E. George A. Papandreou, Prime Minister of the Hellenic Republic

SUMMARY:

Greece is neither the first nor the last country that will undergo severe financial tests. Both Europe and America are still struggling to emerge from the worst global recession since the 1930s. Yet this crisis is also a moment of great opportunity:

For Greece, the chance to modernize and revitalize its governance and development model; for Europe to become more fully integrated; for the world to move toward greater democratic cooperation and governance at a moment when, once again, the global power of poorly regulated markets is proving dangerous for us all.

Confronting these common challenges requires deep and courageous changes. The process will not be easy, but together we can rise to the challenges posed by economic globalization.

FULL REMARKS:

Fifty-three years ago this week, on March 12, 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.

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 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 a god, we had created our own god. The free market.
And gods are not to be tampered with. They rule.
Forgetting that, in democratic politics, god is the people. Both the 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 times.
So off we went with our respective 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 our inability to solve protracted conflicts such as the one in the Middle East.

My conclusion is that cooperation between Europe and the US must be revitalized.

To empower our countries, societies and citizens so 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 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, European authorities, and the Greek people.

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 neighbours.

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 is why, in the past five days, I met with Chancellor Merkel and President Sarkozy, and previously visited with Gordon Brown and Jose Luis Zapatero, to convey my ideas on how to resolve this on-going 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 that Greece, Europe, and America remain strong, healthy partners.

I want to describe for you the steps we and our European partners are taking to address this crisis, and the lessons that it holds for Europe's and America's shared efforts to build a far stronger economic order for generations to come.

A Moment that Demands Change

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 Greek politicians had avoided addressing for far too long.

Our goal was – and remains – to transform Greece into a thriving economy driven by green technology and investment in our natural and human resources.

So when my party won a resounding electoral majority, we knew our mandate—like the mandate of your own new President—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 then Sweden.

And throughout my political career, I have often taken office during times of crisis. I became Education Minister during a teachers' strike. I became Foreign Minister just as Greece was entering one of its most fraught stand-offs with Turkey. I took over as leader of my party in 2004, just a few weeks before an election that we were certain to lose. And now I have become Prime Minister during the gravest 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 does not make change any easier.

Yet the enormity of Greece's deficit made the imperative of deep changes absolute. And now the changes are under way.

To restore confidence in our country and stability to our economy, we pledged to bring the 12.7% deficit down to 8% this year, and to EU-mandated levels of 3% 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.

We know Greece faced not only a fiscal deficit, but also a credibility deficit, as a result of the fabricated budget figures our predecessors had published.

The EU was understandably sceptical about our promises to rein in the deficit and crack down on corruption.

But we are demonstrating Greece's decisiveness.

Public sector salaries have been cut, retirement ages raised and taxes have increased.

These are painful choices that come with high political and social costs. We take them not only to rescue our own economy and prove our own credibility. We do so also because we are part of a genuine community, the European Union. All of these measures reflect our commitment to protect the stability of our common currency.

This medicine may be bitter, but it is only an immediate remedy. We must also cure the core problems that have prevented Greece from reaching its great economic potential for far too long.

So I have told the people of Greece that 2010 must be and will be a year of drastic reforms across all levels of government: changes to our tax system, our social security system, our public administration, our education 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 euro or more. That pattern ends now.

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 will bring in billions in unpaid taxes, and help underpin our return to fiscal health.

We are 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 in minor favors for voters.

Corruption 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, and passed a law so that every government expense will be published online—a first in Europe.

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.

Building consensus for long-term change

These are among the changes my government has made and will pursue in response to this crisis. I am confident that Greece will very soon be a paradigm for open government, a leader in green development – as Greece has great, untapped potential for renewable energy – and a real magnet for new business investment.

But there are two other seminal points I want to stress today—ones that touch on our 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 trans-Atlantic community—leaders like Adenauer, Schuman, and Truman—had an eye on what made sense, not only for next week, but for next year, and the next generation.

So it must be today. The crises the world has faced over the past few years should alert us to the fact that we need more cooperation, regulation and foresight.

My own people understand this. The majority of Greeks recognize that the very difficult changes I have enacted are in their own long-term interest.

This is why Greek public support for my government's reforms is higher than many observers expected. I see this every day. People stop me on the street to say they are willing to make sacrifices if it can help our country. Others have volunteered to give their pension back to the state. One of them is the well-known singer Nana Mouskouri – who spoke about the Greek 'filotimo' – a word that is difficult to translate – but means a sense of pride in giving to the common good.

Europe needs to recognise that the measures we have put in place, and those still to come, need 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.

Although there are great risks in the current crisis, there are equally real risks in unrealistic expectations and inflammatory impatience. It is dangerous to push people too hard, too fast.

Greece already has some of the lowest wages in Europe. The average wage in Greece is just under \$24,000, compared to just over \$40,000 in the US.

We intend to reform our economy with the help of our citizens, not in spite of them.

Europe needs to join us in taking a longer view. Savage budget cuts will not necessarily lead to sustainable economic growth.

If we're not careful, higher taxes coupled with lower revenue could actually slow down our recovery.

And that would be unjust. It could also trigger severe social unrest.

Deflation is a genuine risk, too, if we don't take parallel measures to kick-start productivity and create 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 interests of Europe as a whole.

The price of not acting together will be higher taxes, higher unemployment, and a slower economic recovery for all of Europe.

Addressing the threat of speculation—for Greece, Europe, and America

Greece may be doing all the right things to revive our economy.

But not everyone may want us to succeed.

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 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 EU countries. So when we borrow 5 billion euros for five years, we must pay about 725 million euros more in interest than Germany does.

We will have a very hard time implementing our reform program if the gains from our austerity measures are 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.

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 have taken a significant pay cut.

And we have slashed bonuses in Greek banks by up to 90%.

The global economy is interdependent. We all suffer or advance depending on how well we deal with these risks.

There are both immediate and long-term steps we can all take to counteract the forces that are profiting off self-fulfilling bets on failure.

In our modern global economy, and particularly in crises, expectations play a powerful role. Many real numbers are shaped by what happens in people's minds—or 'Animal Spirits,' as Keynes called it.

This is why friends can and should help in a crisis.

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.

It is true that Greece accounts for just 2% of the European Union's GDP.
But 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 US was followed by a second recession in 1937-38 that derailed the world's recovery and prolonged that crisis.
If the European crisis metastasizes, it could create a new global financial crisis with implications as grave as the US-originated crisis two years ago.

For America, a weak Euro means a rising dollar. That, in turn, means a rising US trade deficit—which will not help America's economy rebound.
If the EU—still America's biggest trading partner—should falter, the consequences here would be palpable.

That is why Europe and America must say “enough is enough” to those speculators who only place value on immediate returns, with utter disregard for the consequences on 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.
It is hard to fathom that we have allowed this to happen.

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. It is the scourge that has led banks to foreclose on the homes of millions of Americans.
It is the scourge that haunts Greece and all of us.

But if Europe and America jointly step in to shore up global financial regulation—and to finally ensure enforcement of 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.
I would encourage US authorities to continue these investigations.
Since the 1980s, we have witnessed a succession of global financial crises—the Third World debt collapse, the US 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.

This crisis is an opportunity to correct many of the excesses of globalization.

It calls for deep structural changes to our global institutions and our system of global governance.

At the G20 and in Copenhagen, we fell short of our citizens' expectations. We fell short of our own rhetoric.

We cannot afford to squander another opportunity to make the critical changes that our current reality demands.

Decisive and collective action and regulation is urgently required if global economic growth is to be sustainable.

We need global coordination of monetary policies.

If we let market forces alone dictate the terms, our economic recovery will almost certainly slip into reverse.

I have just arrived from Paris. Before that, I was in Berlin and Luxembourg.

Together with my European partners, we have taken a common initiative to strengthen financial regulation, particularly vis a vis speculation.

We need clear rules on shorts, naked shorts, and credit default swaps.

I hope that there will be a positive response from this side of the Atlantic to bring this initiative to the G20.

Some fear the word regulation. They claim regulation curtails our freedoms.

That is like saying we should go without traffic lights as it slows down our cars.

So let's make the markets work for us.

Conclusion: Trusting our Partners

All of this is possible if we—Greece, Europe, America—have confidence and trust in each other as partners.

There was a debate for some time about whether the EU would work, and then whether it was better for it to be weak or strong. 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.

The EU is a hugely ambitious and complex project.

We are a political Union of 27 nations and a monetary union with 16 members.

Each of us brings our own experience and idiosyncrasies, even our own language—imagine uniting America if a different tongue were spoken in every state.

But sealing our fates together has undeniably been a catalyst for great progress.

With a whole raft of global crises urgently calling for closer global cooperation, we in the EU have pooled some of our national sovereignty to become more effective in protecting our common interests.

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 post-sovereign currency.” Whatever we call it, we European leaders must show real leadership to prevent unbridled market forces from hijacking this success story for their own ends. I am confident that we will succeed, because we cannot afford to fail.

There is reason to have confidence in Greece as well.

Nobody should underestimate our determination to overcome our current challenges.

The truth is, if I had a Euro for every time outside observers have underestimated Greece's determination—well, our fiscal problems would be solved.

A decade ago, when I launched the process of Greek-Turkish rapprochement as Foreign Minister, everyone said it was doomed to failure; but our countries are closer than they have been in centuries—and there is no better symbol of that than the fact that my good friend Kemal Dervis is moderating this discussion.

I 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. And for the world, this is the moment to move toward 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.

At its heart, our very modern global economy faces a very ancient challenge. 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 made a critical remark about a system controlled by the vested interests of a minority elite: And he characterized such a system as one where " 'just' or 'right' means nothing but what is in the interest of the stronger party."

We have a shared responsibility to create rules and institutions that can provide a more satisfying and sustainable answer.

So let me take you to the Parthenon as I finish my speech.

If one stands by the Parthenon and looks down on Athens, you will not only see the new Acropolis Museum waiting for the return of the Parthenon marbles.

To 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.

The market is and must be part of the realm of our political decisions.

If you look over to a hill on 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 in our globalized society to empower our citizens and give them a real voice in politics.

As you look towards the sea, you will see 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 us see our countries as a vast sea of diverse islands linked by a common set of values. This is what Europe is striving to be.

The ancient philosopher Isocrates said: 'being Greek is partaking in Greek education.'
Meaning sharing in our 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 US in world affairs—in commerce, in culture, in security.

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