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THE GREEK ELECTION AND THE FUTURE OF THE EURO

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P R O C E E D I N G S

MR. WRIGHT: Good afternoon, my name is Tom Wright. I'm a fellow here at The Brookings Institution with the Managing Global Order project. I'd like to welcome everyone here for an event on the Greek elections and the future of the euro. And we're delighted to be gathered here with such distinguished guests at a very timely point, just a few days before the Greek elections.

And we hope today to touch on a variety of issues, including what lies behind the dramatic political changes inside Greece; of course, what the outcome of the election's likely to be and what impact that will have on negotiations with the ECB and the rest of the European Union. What prospects exist for a Greek exit from the euro? How might that happen? What would the implications be? And I'm sure we'll get a chance to touch on the recent developments in Spain last weekend and this week as well.

So I'm going to pretty quickly turn it over to our guests. We have four terrific people here this afternoon. We'll start off with Doug Elliot. Doug is a fellow in Economic Studies here at Brookings and is a member of the Initiative on Business and Public Policy. And then we'll have Daniel Speckhard, who is a nonresident senior fellow here at Brookings and a former U.S. ambassador to Greece. And then Kemal

Derviş, who's vice president at Brookings and director of the Global Economic and Development program. And finally, Desmond Lachman, who's a resident fellow at the American Enterprise Institute.

So the speakers will come to the podium. They'll speak for about 7 to 10 minutes and then we'll have a conversation and open it up to your questions. So I would like to call on Doug to start us off.

MR. ELLIOTT: Thank you and thank you, everyone, for being here today. It's certainly an interesting topic and it's one of those I don't think any of us knows the answers on, but we'll try to do what we can to talk about some possibilities.

I'm going to talk a little bit, initially, about the election and what might immediately come out of it. But I'll leave most of the political side to folks here who know it better than I do, Greece being what it is. But let me start just briefly describing the situation.

As I'm sure you know, there was a Greek election in May that failed to produce a government, and that's what's caused this election on Sunday, June 17th. The fundamental problem is that the Greek public holds two views that are both perfectly reasonable in their own right, but more or less conflict, which is they hate the austerity measures that were agreed to in the bailout, the so-called Memorandum of Understanding that lays out the terms. On the other hand, they don't want to leave the euro.

And what the parties that they have reached an agreement with on the other side -- this so-called troika, which is the European Central Bank, the European Commission, and the International Monetary Fund -- the troika controls the bailout funds. The Memorandum of Understanding is considered critical by them for them to continue providing the funds. So, as I will describe, you could easily find a situation in which these two views become completely irreconcilable. You can't both stop the austerity or slow it very significantly and stay in the euro potentially.

The key is going to be whether the two traditional parties that had agreed to the original Memorandum of Understanding and have dominated Greek politics for years, whether they manage to squeak out a majority this time around, at least a majority of seats in parliament, or whether the parties that are broadly rejectionist -- lead in particular by a party called Syriza -- whether that ends up having a majority. Which itself comes down to probably a fairly straightforward thing, which is the Greek parliament only has 300 seats. Fifty of those are awarded to whichever party comes in with the most popular votes in total. So even if they get just one more vote than the other party, they get the 50-seat bonus. So it's going to matter very much which one wins, and right now it's very close. So I'm going to go through three scenarios here.

Probably the most comforting scenario from the point of view of the rest of the world that doesn't want Greece to blow up is the scenario in which the leading traditional party, New Democracy, ends up getting the plurality and the 50-seat bonus. That looks like it's probably a little more than a 50 percent chance at this point; more likely than not, but it's close to a toss-up. If they do, they'll manage, I think, to be able to form a workable government with a thin majority with the socialist Pasok Party, which is the other big traditional party.

Even if they do in this more comforting scenario, you're going to have extremely tough negotiations with the troika for several reasons. One is the original austerity program -- or rather, this isn't even the original one. It's been revamped before. But the current austerity program, the government is very unlikely to meet the targets under that, both because it was hard to start with and because the political uncertainty itself, as well as the continued economic decline in Europe, has made this very difficult to reach. So they're going to have to find some way to persuade the troika to considerably relax the terms, but not too much that the troika and the governments behind them, particularly Germany, find it unacceptable.

What I think will happen in this first scenario is you're going to have extremely tough negotiations, rollercoaster markets, a lot of fear.

But there's such a strong interest on both sides on finding a deal, I personally think they will find that deal.

So let me go to the less comforting scenario. This is the one in which Syriza, which is a party that used to be much more minor in importance, that they end up getting the plurality and being able to form a coalition government with a majority. Syriza is running very much on the principle that the Memorandum of Understanding is harmful to Greece. I think they would even say it was immoral. They certainly are saying they will demand dramatic changes in the relationship between the rest of Europe and Greece. So if they do pull together, they're going to either immediately abrogate the Memorandum of Understand or indicate that they are definitely going to, at some point, abrogate it and try to enter negotiations.

The worry is there's probably such a gap between their initial position and what the troika might be able to accept that I doubt you'll have more than very perfunctory negotiations at the beginning. A reason this is a huge problem, even if given time they could actually come to an agreement -- which is certainly not a 100 percent probability, by any means. The timing is very bad because Greece doesn't actually have enough money. Greece, left to its own devices, will run out of funds very soon after the election. And what they're counting on is for the rest of

Europe, via the troika, to fill the necessary funding gap.

But if the negotiating positions are too far apart, as I believe they will be, I certainly don't expect the troika to agree to that. I think they will refuse. There won't be enough money to pay all the bills, and then it's likely that what will happen is that the new government basically starts using IOUs, much as California did during the financial crisis.

That is, what I envision is they'd still be able to pay 90 percent or so of their bills. So if they owe you wages, they'd pay you 90 percent in euros, just like always, and 10 percent in an IOU denominated in euros, barring some interest rate, which they swear that as soon as they sort things out with the rest of Europe, they'll pay you off with real euros. So they're not going to a new currency, at least in their way of viewing it, but they won't be paying you real euros either.

Now, that could actually work for quite a substantial period of time if there wasn't such a thing as a banking system because that's the real vulnerability here. Surprisingly, only about a third of the deposits in the Greek banks have left by now. You kind of have to wonder what the other two-thirds are. You know, it's some combination of optimist idiots, people who have a political reason they can't move it, or there's some other factor. But, presumably, of the two-thirds of the money still there, a lot of it could still move. And if it looks like there's a collision course between the troika and the Greek government, a lot of it presumably will try to leave, which means it has to be taken out of the banks, which means the banks have to have the euros to give to the depositors. They're not going to have enough euros for that. They're going to have to get it either from the European Central Bank or from the National Central Bank of Greece, which operates in this manner only with the permission of the European Central Bank.

So there's going to be a real decision by the ECB. Do they permit withdrawals for a period of time, funded essentially by the ECB, based on collateral? Or do they reject the collateral, which would probably be of a very poor quality, and create a banking crisis? Because at that point the banks either won't be able to give out the money or they'll have to do a version of what the government is doing and essentially give out IOUs.

Well, at that point you've got a terrible contagion problem for the rest of Europe. Because if you're sitting in Portugal or, say, Spain -- which is bigger and, therefore, scarier -- if you're in Spain, the smart thing to do is to take your money out of the Spanish bank just in case it turns out that Spain gets pushed into the same situation as the dominos fall. The problem is if everybody takes precautions like that, they will end up triggering the very event.

And I have a relatively limited amount of time, so I won't go into the longer explanation of it. I do have a paper out on our website that gives significantly more detail on this. But suffice it to say, money is an artificial construct. It only has value because we all agree it has value. And that means that if we stop having confidence that it's what we think it is, it's very easy for that to go kerflooey and just not -- the banking system could be in real trouble.

And we saw what happened in the U.S. and overseas when the financial crisis made our banking system work much less well, even though it still worked. If you have a situation where everyone's afraid their euros will turn into pesetas and they're all trying to get their money out, you're going to have a humongous bank run, credit will completely dry up, and the economies will be hurt very badly. So, in the scary scenario that I've been describing, which is quite plausible, you would reach a situation where the European leaders would have to have that final summit that they've largely been trying to avoid, where each of them goes to the limit of what they can do.

I'm an optimist, despite how I may sound. I do think that there's quite a good chance that that final summit will arrive and the leaders would do the right thing, which, to my mind, is Germany and the stronger countries would agree to mutualize the risk. They essentially act as a backstop for the borrowings of all eurozone countries except probably Greece.

In exchange for that they'll demand significantly tougher measures than have already been agreed by the countries in the periphery. In order to assure that the hole won't just keep being dug deeper and deeper with German money, the things they agree -- if they do come out of the summit the way I believe -- will take time to implement, so you'll also need the European Central Bank to step up in the short run and supply money to the sovereign countries that are having trouble getting it, probably by buying their bonds in the secondary market. Because if you know you can sell your bonds to the ECB, you'll be comfortable buying them from the Italian and Spanish governments in the first place.

You'd want the IMF in on this, partly because they bring some money, but mostly because they would provide some external credibility and a check on this. And I think at the same time you'd probably want to move to what they've been talking about as a banking union, where you basically have much more integration of the banking supervision and guarantees across Europe to break the link between national governments and the banks in their country.

So I'll just mention that there is a scenario C. I think there's maybe a 5 percent chance -- and probably Daniel will talk about it -- that this election doesn't work either and you don't quite get a majority for anybody. And then we can have another event in about one month.

MR. WRIGHT: Thank you.

MR. SPECKHARD: Well, thank you. Thank you for inviting me here. It's a pleasure to speak with you. It's a country close to my heart having lived there for three years and feeling a great sympathy for what the Greeks are going through at this point in their history. I think Doug got us off to a good start on this, but what I wanted to do was just focus briefly a little bit on the political dynamics in the country, a little pre-election Political 101 of what's going on in the country, and give you a little bit of background on how we got here on the political side.

The most significant event that's happened has been a collapse of the main parties in Greece in terms of why the country doesn't seem to be functioning right now. And that is, since 1974 and the end of a colonel-run junta military dictatorship, two parties have basically run the country: one a socialist left party called Pasok and a second center-right party called New Democracy. And roughly throughout that period they've had three-quarters of the popular vote in the country, and they've traded off back and forth in which party was leading the parliament and the government during those periods. But what happened is, since 2007 really, and since the Lehman Brothers crisis here in the United States started a financial crisis around the world, each of those parties has had their chance at running the government.

First it was the New Democracy government that came in, and they came in with a strong message of reform and significant structural changes in the country in terms of how they were going to govern, and particularly getting rid of corruption, getting rid of the old-boy network, and building transparency into the system, good governance, and an economic growth plan for the country. They had a hard time implementing that and they left a lot of Greeks discouraged as a result of their tenure.

And with polls declining rapidly on the New Democracy government, in 2007, the former Prime Minister Karamanlis called snap elections to see if he could regenerate enough support for his party to govern and instead the government of George Papandreou and the social democrats, like Pasok, took power. And in taking power, they promised that they were going to soften some of the austerity that they were already starting to feel during that time. George Papandreou promised some new government expenditures and in the first few months he did just that, but then he quickly had to stop because the size of the problem became well known not just to him, but to the world, in terms of the size of the budget deficit and the gaps between their revenues and spending.

And then from there, there was a significant downward decline in the country in terms of its economic situation. As Europe contracted, Greece contracted even much further. Revenues were well short of what they needed for spending and we ended up having to call an election here to see if we could move forward in a forward way. And when they didn't get enough of a majority, the two parties banded together, Pasok and New Democracy. But by that time they had both now been burned by trying to do reform and austerity in a very difficult environment and not being able to, in the minds of the people, keep up their promises.

So then we ended up in May. One of the deals, and this is an important aspect of the political dynamics, is the deal was that New Democracy would join a coalition government, but on the understanding that there would be elections, and so they put in place a technocratic government. That government governed for a little while and then we had the elections on May 6th, and that left us without a majority.

What happened during all that period is Pasok, who had roughly 44 percent of the vote in 2009, went down to 13 percent in May. The New Democracy, which had 33 percent, went down to 10 percent. And so they have gone, those two parties, from having roughly three-quarters of the vote down to only about a third of the vote.

One last thing on those two parties that's kind of interesting to note is the last two leaders of those parties and prime ministers were both relatives of former prime ministers. So George Papandreou was the son of a famous socialist prime minister in the ’70s and ’80s, and Karamanlis was the nephew of one. So, again, the voters sort of felt that there was a time and a need for change in this particular dynamic. And so when we went into the May 6th elections, we had both the dynamic of spawning a great number of new parties and the rise of some obscure ones and the growth of the mainline radical left.

So on the center-right you had four new parties that had taken away 17 percent of the vote from New Democracy and on the left you had what had been there all along, but a coalition of the radical left that had splintered, so it was really two parties at that particular point in time, taking 19 percent from Pasok.

And then the last dynamic is you had this growth in the radical extreme right where Golden Dawn, a new neo-Nazi style party as described by some, took 7 percent of the vote, having had only .3 percent in the previous election.

So, as we look to the elections on Sunday, voters are in a quandary, as Doug has said. Seventy percent want to halt any further reductions in public sector jobs, wages, or pensions, according to a recent poll. But they overwhelmingly want to stay in the euro. There was some

70 percent, roughly, feeling that same way. So they are trying to figure out their way through this election as to how they can have both.

And the battle is between Syriza and New Democracy, with the first place getting the prize of 50 extra bonus seats in the parliament. This is why it's so important because whatever party wins, it's likely to have only 25, 27, 23 percent even of the vote. But because of that extra 50 votes, it puts them in a very significant leadership position.

The other significant element of the elections is that there's a 3 percent threshold that's required to get in the parliament. And this has been important because, as you've seen between May and what the last poll showed about two weeks ago before they had to stop -- according to Greek law that doesn't allow you to do polls up to the election -- was that voters were moving away from the small parties where they thought it would not allow the party to get into the parliament because it wouldn't meet the 3 percent threshold and they were giving their votes to the bigger parties that were going to be in potentially the next parliament.

I wanted to give you just a little dynamic on the power of Syriza in terms of why they're so popular. I get asked a lot of times, what is it about this party? Why are they attracting so much attention?

They are a very leftist party. It's actually a coalition of a dozen some parties and, if you look through those, three or four of them have names like Communist this and Communist that along with them. So these are not sort of just generally a more left socialist, like you see in other parts of Europe. But they've actually been traditionally very far left in terms of the political spectrum, with really only the Communist-Leninist-Marxist party, the KKE, being to their left.

But why are they being so focused on? Why are the voters flocking to them? It's essentially because they're the message of change in the country. As I said, these other two parties have been there for such a long time -- for almost 40 years -- and there's a feeling that they got them into this trouble.

There's also a perception that this young leader, a guy 37 years old, Mr. Tsipras, is in line with some of the messages of Europe and in the United States as well, the messages of growth over austerity that is being heard in some corners and the notion that you can't cut your way out of a significant recession. He says to the populist that he can give you both. He can give you both an end to the austerity program as well as staying in the euro.

New Democracy, who's fighting this, is basically fighting on the line that if you vote for Syriza you're voting to leave the euro. For their challenge, though, they have the problem of having been in government recently and having been part of the decline. So their real hope is that enough people will be scared of this far left party and move towards the center and because of their ability, in their minds, to do a better job negotiating with the troika.

I'll finish quickly here, but I wanted to end by talking a little bit about what Doug was talking about and that is that no one -- I think as he highlighted -- is talking about sticking to the existing memorandum of the troika that outlines the austerity measures. Even the most centrist parties have said it has to be renegotiated. And so there will be a challenge after the election as to how that plays out. I'll let others talk more about that.

In the elections itself, I feel it's really too close to call. In terms of where we are, some polls at the end of May showed Syriza ahead by about 2 points; other polls show New Democracy ahead by as much as 4 or 5 points. So you really can't tell from that, and there's been a huge dynamic since then in the populations that's changing it. But I do think you should expect that a coalition will be needed. And I agree with Doug that it's more likely to work if New Democracy is elected in terms of the front running votes. I think that you will be able in that particular case to pull enough from the other central and right parties to be able to form a government.

If Syriza wins, I think it will be very difficult, as Doug also said, to form a government at that point in time because the far left communist has resisted joining any coalitions. And Pasok, who is the party that has been destroyed by the rise of Syriza, will be very nervous about going and supporting the party that has caused them, in some sense, their ruin.

The last few points I will make is, the challenge is even if you get a coalition, which I tend to think is more likely than not, partly because the electorate is very tired of elections and they don't want to continue to be in a state of uncertainty, so I think there will be enormous pressure on the system to get that coalition, but for me the question will be will that coalition be able to govern? And I hope we can hear from Kemal and some others on that particular point because the challenge is going to be the still huge size of the difficult task in front of them.

And they were supposed to come up with another 11 billion in cuts by the end of this month. The political differences between all the parties that will be part of a coalition and all the different personalities will make it very different to govern. And if you look at the history of Greece in general, there's always been a real challenge in the parliamentary system that the prime minister has a hard time shepherding the herd in either his own party or in the coalitions. And the challenge will be not getting that coalition together, but keeping the votes in the parliament amongst the parliamentarians that are there.

I think a lot will depend on the EU and the troika in this. What you see in recent days, at least in my reading between the lines, is that there's an enormous effort going on in Europe to try to encourage the Greeks that there is a way out of this, that it's not hopeless, that if you just vote responsibly you will be able to find a path that's a little less painful for you and keeps you in the euro. And I think, after these elections, I think the Europeans will be in a very much important position with keeping a government, if it is formed, together and being able to sustain it through a long enough period to calm the situation and drive some reforms over perhaps a little bit longer time.

I'll stop there.

MR. WRIGHT: Thank you very much. And now I'd like to call on Kemal, please?

MR. DERVIŞ: Well, I'm also very happy to be here and I don't think any of us has a silver bullet or projection that we can be very comfortable about. Let me make three kind of general points beyond Greece and the whole situation.

And the first one is, I was in Spain a week ago and it, you know, made me think that way even more. Setting up a monetary union, like the eurozone has done with a Central bank at the center, in a sense robs each individual country of a Central bank. I mean, basically Spain or

Greece or Italy don't have a Central bank in the sense that they don't have, like the Bank of England or the Federal Reserve, somebody who in a real crisis can just move in massively. Okay?

I mean, think of the U.S. if, after Lehman Brothers, there had been no Federal Reserve? And I think just thinking about it shows how impossible the situation would have been. So I think the eurozone really does face this fundamental problem. And the only way to kind of somehow solve it or have a design that works is to have a much, much more tightly integrated eurozone where the Central Bank is really ready to step in at crisis times for any one of the members, and that at this point is not the case. So that's the first point I wanted to make.

The second point I wanted to make is we emerging markets have lots of experience of crises of this sort: Latin America, East Asia, Turkey and so on. But in almost all of these crises which were overcome in the period of two, three, four years, depending on the situation, there was one ingredient in the kind of policy package, which was a devaluation, either engineered or it happened. And while you had austerity and contraction in domestic demand, supported and demanded by the IMF, in many countries export demand provided the channel to stimulate output. Okay? So there was kind of a switching of demand from the internal market to the outside market.

Well, you know, in the eurozone that doesn't work because you can't devalue your currencies. So that's why the situation is very different from, you know, the Turkish crisis in 2001 or the various Brazilian crises, and so on. In a way, somewhat more comparable to Argentina because Argentina for a long time, because of the Currency Board, couldn't or wouldn't devalue it. But, of course, in the end it did. So one has to keep these two things in mind in realizing how difficult the situation is.

And while I think the Greek government, mainly the Karamanlis government, mismanaged its economic policies and there was a lot of irresponsible fiscal policy and tax policy, and so on, there were other countries in the world which were in similar conditions and they got out of it because, on the one hand, they had a Central bank and, on the other hand, they could export. They could devalue. So the fact that Greece is in such huge difficulty has a lot to do with these two conditions which are not present in many other cases.

The third point I want to make is this whole austerity and growth debate, which is way beyond Greece, of course. There's no doubt that all the Southern European countries need very serious structural reforms. In the case of Greece, I think that the whole tax system, tax collection, is one of the key issues. There are major reforms needed in the labor market, the closed-shop approach to many, many parts of the labor market. And I think there's also need for competition reform because many sectors are dominated by monopolistic structures. So there's lots to be done on the structural side.

But all of these reforms will take time. There's no way that you can do this overnight, and the results will also take time. So the idea that you can have growth and extreme -- extreme in the sense of really substantial reductions in the fiscal deficit -- austerity at the same time, I think is just wrong.

In situations where there's massive unemployment, excess capacity, output is essentially demand determined. It's not supply determined. There's plenty of capacity, in Spain, for example. The problem is demand, okay? Larry Summers gave a very interesting paper on this in the U.S. context at Brookings during the Brookings papers conference. The idea that somehow the future confidence you project through austerity will, you know, stimulate demand is very, very hard to show any example of. There are some in some cases, but it's very rare.

And, in fact, I really have come to the conclusion that one thing that is needed in Southern Europe is significant relaxation of the austerity policies. Actually these countries are now in a downward spiral where you restrain the public spending, private sector isn't spending, there's more unemployment, there is more welfare spending needed to keep people literally alive. Taxes fall even more. The deficits turn out to be bigger than expected and to respond to this by asking for even tighter fiscal policies in the short run, in my view, is simply wrong.

And thankfully, I'm not alone in this view. I mean, for example, in a cautious way the IMF World Economic Outlook of April actually recommends that Spain slows down the fiscal adjustment. It doesn't recommend that Spain tighten its fiscal policy even more.

Now, you know, how to convince parts of Brussels and Germany of this is a big question mark, but I really do believe that there's a fundamental need to rethink the whole package in the short run. Yes, of course, insist on the structural changes and long-term reforms, but, at the same time, in the short term, let up on austerity.

And these economies sell a lot to each other. They're quite integrated by trade. So austerity packages in one country's one thing, austerity packages all over the place have multiplier and spillover effects which make the austerity even more severe.

Now, the counter argument that's sometimes given: but look at Estonia or even Ireland. There are some examples, Estonia being one, of extreme austerity packages working without a change in the exchange rate. Okay? But those, in my view, first of all, they're very small countries who have had extremely rapid growth before the crisis. Rapid, you know, 12, 14 percent type of increase in real wages and things of that sort. So when you have that kind of situation where people's welfare and living standard has gone up a lot over the last decade, let's say, and then you ask these people for two years of sacrifice, okay, it's still hard, but they get back to where they were three or four years ago, not where they were a decade ago. And I think politically, to engineer that and to implement an austerity program in a country that had extremely rapid growth -- by "extremely" I don't mean just 3 or 4 percent, I mean 10, 12 percent growth -- I think is more feasible than to do that in the countries of Southern Europe.

So, the way out. The way out, I think, is to make the European Central Bank a true central bank. The house is on fire. You know, you can debate on how to reconstruct the house best once you've put out the fire, but at this point -- and I think the Spanish package has shown it -- unless the ECB comes in with massive firepower -- and I agree with what Douglas said -- buying massively the bonds of the Southern European countries on the secondary market, I think the other packages with all kinds of interest rates attached to them and increasing the debt of the sovereign and so on won't really work. I mean, the Spanish package fell flat, as we all saw. And Spanish interest rates are now higher than they were before the package, which is, in a sense, incredible when you think about it. It was an up to $100 billion package. It didn't work.

So I think without the ECB, I'm very pessimistic. I mean, I really think -- on the other hand, if the ECB moves in with full power, it has the capacity to do that, it could give time to the structural programs, for the reforms to actually start giving results. And it could turn the atmosphere of despair and pessimism that is in all these countries into some hope. When a country has lost all hope, when all that young people are thinking about is immigrating, you know, to somehow think that structural reforms will turn this country around I think is being overly optimistic and really wrongheaded. So I see that as the only real solution.

Now, in the Greek case, of course, it's much worse than Spain and Italy or even Portugal. The debt ratios are much, much higher. And I think the only thing that can work in conjunction with what I've just said, if Greece is to stay within the eurozone, is that combined with another round of massive debt relief on the official side, which I think politically looks very difficult.

So I think Greece's situation is an outlier. I don't want to compare it to Italy, Spain, and Portugal because those three economies are not at all in that bad shape, and Greece really, you know, faces the danger of kind of state failure. I think whoever wins the elections, the fundamental problem won't have been solved. I mean, the program is not implementable, neither economically nor politically.

And on top of that, to do that in a politically extremely segmented society, whoever wins the election, even if New Democracy forms a coalition with Pasok, you know, Syriza is strong enough and the left parties are strong enough to challenge it at every step, whatever the coalition does. So the Greek situation is an outlier. I wished it wasn't. I wished, you know, there was a way that one can see that really works. It's very hard to see.

My preferred solution would still be a reasonable revision of the program combined with another round of deep debt reduction and some kind of government in Greece that rallies around that thing. But to see this happen, one has to be pretty optimistic. Thanks.

MR. LACHMAN: Okay, the mic was off, so I'll thank him again. Thank you very much for inviting me. And basically, what I'd like to do is pick up on a few of the points that Kemal has made and perhaps to draw it to the logical conclusion of what he's saying in the context of Greece.

Essentially there are two points that I'd like to make. The first is the point that I don't think that we should overstate the importance of this election. It doesn't make much difference who wins this election.

Greece is on its way to defaulting on its official debt and it's on its way to exiting from the euro. The second basic point I'd make is that while this might be bad for the rest of the eurozone, it is probably going to be a good thing for Greece, particularly if this is well managed. So I'd like to develop those thoughts.

Let me just start with an understatement. The IMF, EU, ECB program with Greece has been an unmitigated disaster. If we look at what's happened to Greece under their tutelage, we've seen that over the last three years Greece's GDP has declined by 16 percent. It's on track to decline by another 7 percent in 2012. This takes it to levels that were seen in the United States during the Great Depression. Unemployment amongst youth has risen now to over 50 percent and shows no sign of declining. The public finances as a result of this are in tatters. Greece's tax collections are falling short. It's developed very big public arrears.

Now, the narrative that the troika is trying to spin is that all of this has been Greece's fault. My point of view is that there's no way that Greece could have overspent and got itself into this kind of trouble had the German and French banks not over lent to Greece.

When the IMF got called in to deal with the Greek problem at the beginning of 2010, it should have been painfully obvious that one was dealing with a solvency problem, not with a liquidity problem. Greece's debt should have been written down right from the start. One should have seen that fiscal austerity on the scale that the IMF was prescribing could not possibly work. It was going to drive this economy deep into recession and create all sorts of vicious cycles that, sadly, we have perceived.

I should just say on a personal note, I grew up in a medical family and my father was a successful physician. And I noticed that, first, it was important that he made the right kind of diagnosis. Secondly, he didn't believe that blood-letting was a good idea. (Laughter) And thirdly, what he found that if he was prescribing a prescription to a patient and it was patently not working, he didn't double up on the dose. (Laughter)

What occurs now with the IMF is that we're seeing Greece in this kind of straights, yet what the IMF is asking, what the program requires from Greece, is 5-1/2 percentage points of GDP of additional spending cuts in 2013 and 2014. This would just drive Greece deeper and deeper into depression. There's no end to this, that this would just continue. So I think that this is really a great exercise in futility. I don't see politically, when 60 percent of the population are expressing that they're vehemently oppose to austerity, that whoever wins this election can get the parliament to push through austerity measures on this side.

The trouble, though, is that if there's a relaxation of the program, there's also got to be additional financing, that basically if

Greece doesn't do this kind of adjustment and it's got a bigger budget deficit than the program had thought, somebody is going to have to put up the financing. And I don't see how the Germans can be expected to not only relax a program with Greece, but also to add additional financing. That sends out an incredible message to the rest of the periphery that there's no point in adjusting because you're going to get bailed out on a continual basis. So the Germans, I think, are right to be concerned about a bottomless pit in this and that one should really step away from it.

The final point that I'd like to make is that I recall in the UK in 1992, late 1992, when the United Kingdom got blown out of the ERM arrangement, that day was referred to as Black Wednesday. Subsequently, when the UK realized that this was a good idea to have flexibility on the exchange rate, that they could do the adjustment, Black Wednesday became called White Wednesday.

The same sort of thing happened in Argentina, that there was huge fear of Argentina leaving the Convertibility Plan, that the sky would fall, that this country would go into oblivion. Argentina had an incredible decade, a lot of it due to good luck, but a lot of it due to the fact that they had currency flexibility. The point I'm making is that Greece's only hope for salvation is to get out of this euro arrangement, to get out of this straitjacket, and to manage it. I'm not suggesting that this is an easy endeavor, that what it needs to be accompanied with is it needs to be accompanied with strong fiscal support, international support to make this currency arrangement work. But that, in my view, is a very much better alternative than persisting with something that has already driven Greece into the deepest of recessions. Greece has got absolutely, in my view, no hope by sticking to these kinds of policies which have failed in the past two years.

So on that optimistic note, I will end. (Laughter)

MR. WRIGHT: I'd like to thank our panelists for terrific presentations and I'd like to open it up for one or two questions before we go to the audience.

So you all touched on obviously if Syriza wins the election on Sunday what the implications might be, but I just wanted to push you a little bit further on this. If they do become the largest party on Sunday, and on Monday, the markets and the ECB and Angela Merkel and President Obama all wake up to a world in which Greek voters have rejected the bailout with the IMF and the ECB and are really calling for a tearing up of the Memorandum of Understanding, you know, what happens next? How do the markets react? How does Berlin react?

Kemal spoke about the ECB needing to sort of moderate its position. Do they moderate their position? Do they indicate that they are willing to renegotiate or is this a Lehman moment on Sunday? And that could lead to sort of chaos in the markets and throughout the EU next week.

It's a bit of a softball question, so I don't know who wants to start off, but.

MR. ELLIOTT: If I may, I was in the markets for 20 years, so let me focus most on that. Look, I think the financial markets on Monday would react very, very badly because the view would be, and I certainly share the view, that Tsipras and the Syriza Party have taken such a strong position in favor of brinksmanship with the troika that there won't be any hope of negotiation in a reasonable period of time. So I think what will happen in the markets, and in the banking system in particular, is people will try to take precautions. And those precautions, unfortunately, in the aggregate, will cause the very problem we're concerned about, which is people will pull their money out of the banks not just in Greece, but in the other weaker countries.

And the optimistic part of this, because I insist I am an optimist, is I think this will bring that final summit where the leaders of Europe finally have to take the fuller steps that are necessary. Now, I think Greece is in terrible shape no matter what. I'm not saying I see an easy answer for Greece at all. But I do think with very strong measures in the rest of the eurozone there are things that can be done to stop the contagion and keep this confined largely to Greece.

MR. WRIGHT: Desmond?

MR. LACHMAN: Yeah, I would just add that one's really got to look at the context within which an event that you're postulating would be occurring. It's not as if it's occurring with the rest of the eurozone in fine shape. That, in fact, what we're seeing is we're seeing Spanish yields now at all-time highs. Spain is under huge pressure, Italy is under a lot of pressure; that what we've seen already is there have been reports that 100 billion euros left Spain in the first quarter of 2012, so that there's already a run on the banks in Spain, so this would really precipitate it.

I don't buy the notion that suddenly Germany is going to cave and agree to a grand solution in which Germany is going to write the check not only to bail out the sovereigns in all of these countries, but also to provide deposit insurance. That would really sink Germany as a credit, you know. So I don't see that you're going to get the grand bargain.

I think that what's far more likely is that you'll get an operation of the sort that we got in December of 2011 and February of 2012, the famous ECB LTRO operation, where they threw a mere trillion euros at the European banks and managed to buy four months of relative calm. You know, I think that that is far more likely than the Germans are going to say this is a great idea, you know, here's the checkbook, here we're riding this out. And that's basically the problem that I see with unlimited intervention by the ECB. The Germans didn't give up the Bundesbank to have their currency debauched, you know, by a European Central Bank. So I think you're going to get another stopgap kind of solution.

MR. WRIGHT: Kemal, if I could ask you, in his remarks Desmond mentioned a Greek exit from the euro being a positive event in the net effect for Greece and being potentially contained throughout the rest of the eurozone as a whole. What probability would you attach to that scenario, to a Greek exit? And is there any way in which such an exit could be contained so that it wouldn't lead to contagion throughout the eurozone?

MR. DERVIŞ: Well, two things about the election. I mean, I agree with my colleagues, and particularly with Desmond, that, you know, the basic structure of the Greek debt and Greek finances and the whole structure of the country means that whoever wins the election, you know, the medium to long term is very difficult to manage. And it may not be that -- in the medium term, what happens may not be that dramatically different.

However, in the short term I think there is a difference. If

Syriza wins the elections, I think the people in Europe and in Germany, but also beyond Germany, who say, look, Greece is unmanageable within the eurozone, whatever the cost, I mean, they're smaller than trying to keep it in, so let's ease the exit, let's find a way to have the exit. And the incentive to kind of cooperate with a Syriza-led government and the willingness to do that will be much less. So in that scenario I do kind of think that a pretty fast exit is probably quite likely if the strength in parliament, the balance in parliament is like that.

What will happen, I mean, you know, in terms of how well it could work, very hard to say. I mean, you know, it has to be a real devaluation. If inflation eats up -- you know, if you go into a cycle where the exchange rate devalues and then inflation goes up and the real exchange rate, you know, doesn't really devalue and you end up having a very, very high inflation rate and so on, it could be very, very ugly and very difficult.

And there is also the whole political Balkans situation, you know, the whole situation, the region, Russia's role, I mean, many, many factors come in, so it's not just economics. I mean, there could be a situation if things get really tense where, you know, you get a kind of anti-EU, anti-West militancy in Greece, which could have, you know, some serious costs. But very hard to know how this will happen.

In the other scenario, where New Democracy has enough votes to form a government with Pasok, let's say, and with one of the smaller -- I guess they're already allied with Dora Bakoyannis, so, I mean, it will be very hard in that case, in the short run, for Europe not to try to help. You know, if they win, and in a sense the message from Berlin and from Brussels has been encouraging the Greek people to kind of vote that way, and if they do, they are able to form a government, I think the system, the Europeans, will be forced -- I mean, in the short run will negotiate and will try to give some more fiscal space to Greece and try to get the Central Bank to finance the banking system and so on. Because, you know, for those to win and then Europe acts as if it doesn't care, I don't see that scenario happening. So I think these are the two possibilities.

Just one point on Desmond and the IMF. Desmond, you kept saying IMF, IMF, and maybe it was shorthand, but, you know, the IMF, in my view -- and I've followed it very closely -- was the most, how shall I put it, constructive, flexible, and closer to the view that the program may not work this way compared to the other actors, which were the European Central Bank and the European institutions and, of course, particularly Germany. So if anything, my understanding is that the IMF has been sometimes behind the scenes, sometimes more openly, like when I mentioned the Spanish program, actually trying to steer things, in my view, in a more correct direction. But it is kind of a junior partner in the sense that the bulk of the financing comes from Europe and indirectly from Germany. So I just wanted to kind of add that.

MR. LACHMAN: Yeah. I guess, you know, my problems with the IMF are multiple on this eurozone crisis. Right? The IMF has got a role of surveillance and right through the period in which these massive internal and external imbalances were building up in Europe, the IMF was totally silent. You know, the IMF didn't see this crisis coming. They should have been the ones blowing the whistle. They should have been taking Trichet to task for selling the bill of goods that current account balances don't matter in a monetary union. Germany was running a current account surplus of 6 percent of GDP; Spain a current account deficit of 9 percent of GDP. The IMF should have known better, should have blown the whistle.

Where I've really got concern about the IMF is in May 2010, in that program the IMF should have seen that Greece was not a liquidity problem, but a solvency problem. It shouldn't have gone down that path of trying to finance something and impose fiscal austerity that wasn't going to work.

I agree with you that subsequently, you know, behind the scenes they're trying to do something, but they're basically trapped. They're trapped by their own program. And right now the amount of fiscal adjustment that is required in their program is enormous and they still are only going to get to 120 percent to GDP debt ratio by 2020. So I think that the IMF really has got a lot of blame to take, maybe not all of the blame; I think, you know, the blame can be apportioned to a lot of faces. But I really bridle at the notion that this is all Greece's fault.

MR. DERVIŞ: Well, I didn't say that.

MR. WRIGHT: I think Kemal is saying it's all the ECB's fault.

MR. LACHMAN: No, no, no.

MR. DERVIŞ: It's much more Berlin's fault than --

MR. LACHMAN: Sorry.

MR. WRIGHT: Or the ECB's fault. I'd like to go to the audience for questions. But before I do, I'd like to ask Daniel that question, and it came up in the other remarks about a Greek exit. But Tsipras and Syriza have been very clear that they do not want to exit from the euro. They've consistently said, and maybe this is false advertising on their part, but they've certainly said to the voters that they want to tear up the bailout, but stay in the euro. Could you speak a little bit about, you know, where the Greek people stand on sort of staying in the euro; if they believe what Syriza is saying, that that's a viable strategy; and what their reaction may be next week if Syriza wins the election and, as Kemal suggests, the rest of the EU begins to think how can they ease Greece out? Will there be shock amongst the voters or, you know, confusion about how this came to pass, or are they expecting it as a natural reaction to the election on Sunday?

MR. SPECKHARD: I think most of the Greeks are, first of all, a significant majority, in favor of staying in the euro. And one poll last month had said that if given the choice between halting austerity or staying in the euro, only 25 percent would say it's worth getting out of the euro to halt the austerity measures. So there's a significant majority that there's a huge psychological dynamic here for the Greeks sort of having been further behind the rest of Europe for a long period of time in the economic front and then feeling like they're part of the European Union at the center and part of the eurozone, particularly because they live in that southern-eastern part where the Balkans and other countries, it gave them a sense of being sort of more advanced. So the notion that they're falling back to the drachma is going to be a huge psychological blow if that were to come to pass for the Greeks. And I think you're going to see them resisting to the very end to avoid that.

The challenge that they have now is that if Syriza wins I think the Greeks will be thinking just like Kemal and others have said that the rest of Europe and the international community is going to say that's probably going to be unworkable. And so they will act rationally and they will take whatever money they have left in the Greek banks out.

And I think there was a capitalization program of about 18 billion of new money to come from Europe into the banks. Well, in just one month they were losing 5- to 6 billion, so that'll hold you over for 3 or 4 months. So I think the Europeans will give them a breather even if Syriza wins.

If I was being a diplomat -- unlike the markets; the markets give you no room -- if I'm a diplomat, I will be furiously trying to figure out how to work a Greek exit, but trying to keep my words very cautious in that period. And maybe there could be one more election to fix this problem. Because the thing that Desmond said, that I agree with what he's saying in a broad sense, but I think the challenge is, the words he used is if it's managed well this can work. Well, the Greeks have had trouble managing for a while now and none of the Greeks have great confidence in the bureaucracy and the government to manage the reform program or a Greek exit. So I think there'll be a huge fear resulting from any possibility of a Greek exit from the euro.

MR. WRIGHT: Great, thanks. We'll go to the audience now. We have about 25 minutes for questions.

As always, please introduce yourself when you ask a question and keep it brief and make sure it ends with a question mark. So up here the gentleman, three rows from the front.

MR. SCARLIS: I'm Basil Scarlis. I used to work at the U.S. embassy in Greece a decade ago. And my question is I heard that one expects financial markets to react negatively and that citizens in other Southern European countries will withdraw their money from banks in their countries. What measures, though, would the European Union attempt to stop the contagion, and whether you think they'll be effective?

MR. WRIGHT: Thank you. Who would like to --

MR. ELLIOTT: Sure. Why don't I jump in and then Desmond can tell me I'm wrong? It seems to be the usual dynamic in our discussions.

Look, the problem here is, as I was alluding to in my initial remarks, it's very hard to stop this kind of confidence problem, especially when there's a good reason not to be confident, so it's not completely illusory. One thing that Europe will clearly try to do is to move towards more of a banking union, try to assure people that their banks will be okay because they'll have the strength of the entire eurozone behind them in some manner.

The problem, though, is I don't think in those circumstances we're describing that the main fear of depositors will be that the banks become insolvent in that sense. The main fear will be that if they wait too long, they'll get their money back, but it'll be pesetas, not euros. And there's no way I can see of developing a viable and politically acceptable way to guarantee the trillions of euros you'd have to guarantee will stay as euros. What you'd effectively be doing is you'd be guaranteeing that even if your country chooses to pull out of the euro and devalues, we'll give you the difference so that you'll be just as good as you were. So there's a limit to how much can be done about that.

So the best they can do and what I think they'll be forced to do -- and I do think could work -- is to take really dramatic actions to convince the public that there's not a reason for a Spain or a Portugal to pull out, which means guaranteeing their banks, but also showing where the financing for those countries will come from so they don't have to worry that the markets will be able to basically -- well, hold them hostage sounds like it's an intent, but that they won't be at the mercy of the decisions that the market makes.

MR. SCARLIS: You mean deposit insurance?

MR. ELLIOTT: Deposit insurance, but no, I'm actually talking principally here about providing financing programs for Spain and Italy if it comes to that.

MR. WRIGHT: Another element to this, too, is just the redenomination of international contracts, right? If Greece were to leave, that any decisions that are taken about how to redenominate those contracts have a precedential effect for other members of the euro; that the markets will worry that if they withdrew, too, that similar redenomination will leave winners and losers.

MR. ELLIOTT: You're absolutely right. That'll be yet another problem.

And I should say nobody has a clue how this would work if Greece does withdraw. There's not any kind of decent precedent about how the contracts would be reworked. There is some precedence, but nothing that would be good enough that you'd have any real certainty and that would be one of the transitional problems.

MR. WRIGHT: Okay. We'll take another question from the audience. Oh, yeah, Desmond.

MR. LACHMAN: Yeah, I wouldn't disagree with the view; I would just elaborate on the view. Like I said, you've already got a run going on in places like Spain. They've already lost 100 billion euros in the first quarter of the year. The Spanish economy is moving sharply into recession. They've got the same sort of IMF program. So there are reasons for people to be fearful of what is occurring. The markets aren't financing them; interest rates are at 7 percent. You know, so if you get a Greek incident where you see capital controls being imposed in Greece, deposit freezes, people losing money, that is going to be an added element to hasten the deposit run that is already underway.

Now, ideally, what you'd want is you'd want to put in a deposit insurance scheme, but, firstly, you'd have to have somebody financing it. You'd have to have proper bank supervision. You'd have to have negotiations. All of this you can't do tomorrow, so, you know, it really just leaves you with the only game in town is the ECB coming in and providing the banks with liquidity and trying to install some sort of confidence on that side. And that would be my expectation is the stakes are so high, distasteful as this might be to the ECB, they don't have an alternative. You know, the alternative is just to watch this whole thing melt down.

So my expectation is you'd get a very strong reaction by the ECB. And, you know, if you don't see this on Monday, you'll see this later one, you know, when the Greek program folds.

MR. WRIGHT: We have a lot of questions, so I think we'll take just three together and then we'll ask the panelists all to jump in as they see fit. So this gentleman in the second row first.

MR. SITILIDES: Thank you. John Sitilides with Trilogy

Advisors, an occasional advisor to the State department. Much of what I've heard today focuses, looking specifically at the example of Greece, on the difficulties caused by the austerity measures, and how painful these have been for the Greek people and where there have been failures from Brussels, from the IMF, on these austerity measures, which some might call fiscal discipline actually because you're dealing here with a country, where one out of four people is employed by the government. So there's plenty of room for contraction as opposed to other countries with less room for contraction.

But my understanding is that the May 2010 memorandum called for significant reforms that were never implemented by the Greek government or Greek governments. So there has been no privatization to speak of in Greece. There's been no significant labor flexibility reform. There's been no significant improvement in tax administration. How does one expect Greece, whether on the euro or the drachma, to ever rebuild itself to one day become a prosperous country when you have a political class that seems incapable of implementing any reforms?

MR. WRIGHT: Thanks. We're going to take a couple more. The lady in the third row just beside you there.

MS. CONSTANTINE: Hello. My name is Helena Constantine. I'm of Greek origin. I would like to echo the previous question. How would the government that will emerge from the elections, regardless if it's in or out of the euro, how will they revitalize the social fabric of the country and make it a productive and competitive country given the history of the country?

MR. WRIGHT: Thank you. And one more, this gentleman here. And then we'll go to the back in the next round.

MR. KLAPSIS: My name's Harry Klapsis. I'm also from Greek origin. And my question is what do you see as a potential timeline of a Greek exit from the euro and the immediate implications for both the Greek and the world economy?

MR. WRIGHT: Thank you. Kemal, would you like to start us off just on Greece and what its prospects are, how you might get recovery?

MR. DERVIŞ: I mean, having, through my work in many countries, compared many, many countries, you know, the dysfunctionalities in Greece are severe. So were they in Argentina, in Turkey, in many other countries, in Brazil. Greece may be a little bit one of the worse cases in terms of mismanagement, but I don't see, if we really carefully look at the data, that it's an order of magnitude difference. Okay? So you have to do the structural reforms, absolutely. But on the other hand, there were parts of Greece that were working reasonably well.

By the way, productivity increased in Greece 10 years before the crisis; was faster than in Germany, you know. I mean, Greece was not a basket case. It had dysfunctionalities and problems, but it was not a basket case.

In terms of public sector employment, yes, it's true, it's an over-employed and politically kind of patronage type of public sector. But in the short run, I mean, suppose you fire half the people in the public sector tomorrow, what are they supposed to do? There's no private sector that's going to hire them. So, you know, it sounds kind of -- I mean, it shouldn't sound easy. To reduce the public sector workforce over a period of four or five years is one thing. To try to fire a huge amount of people when unemployment is already at 25 percent is a very different story.

And every country, every people, every human compares their position relatively to the recent past. Hereby my point, you know, the comparison to Estonia. Estonia had this spectacular growth, very small place, a little bit of foreign investment, you know, pushed incomes up tremendously. In Greece, living standards are already now down probably by close to 20 percent compared to the average of the last decade. So it's a very, very difficult situation. Suicides are increasing.

You know, I've been to Greece myself many, many times. I mean, they're extremely hardworking Greeks, you know. I mean, there were dysfunctionalities, but Greece is not a basket case.

Now, you know, again, further down, to enlarge the point, Spain, I mean, Spain four or five years ago was a poster child, was doing extremely well. It was also managing its fiscal accounts extremely well. In fact, one of the few countries that actually fulfilled the Maastricht criteria. So, you know, we're running out of time.

But what I'm saying, that there definitely are reforms needed, but it begins to look awfully like the Great Depression early 1930s, where wrongheaded economic policies, macro policies -- in those days it was sticking to the gold standard -- led, you know, countries that were again not basket cases, like the U.S., into the deepest crisis. A country like Germany, you know, which again was a provocative country, had 25 percent unemployment and it ended up with, you know, Hitler winning the elections and the catastrophe beyond.

So I really think this is very, very serious now for Southern Europe. The political implications are very serious. And in my view, the really wrong economic policies being pursued have a huge responsibility in the degree to which the situation has deteriorated.

MR. WRIGHT: Thank you. Daniel?

MR. SPECKHARD: Let me just add a little, too, because I kind of agree with some of those points. And I know what John is talking about, the country has fallen well short of what it needs to do in the context of structural reforms to make it an attractive place to invest, to get economic growth moving again even in a good scenario.

But, at the same time, I think we have been a little unfair in the international community of just kind of stereotyping Greeks in terms of what they've done. Because as I look at it, they've done some humongous changes on the public policy side that most of our countries would be very challenged to do in a very short period of time. For instance, on taxes, they've raised the VAT tax several percent, so it's not 23 percent, I believe. Can you imagine paying 23 percent in taxes on purchases in the VAT system?

They put taxes on the electricity bills for your property tax. So because they weren't able to collect property taxes, now you don't get electricity unless you're paying your property taxes at the same time. They have gone after some of the bigger evaders as well.

On the flexibility, they haven't made as much progress as they want, but they have opened up some of the closed professions. And so there's a number of areas.

And in terms of people losing their jobs, probably 2- to 300,000 people have lost their jobs over the last year in terms of this contraction that's going on. In the government it's been much less than it should be -- I think it was probably in the double digits -- but it's still not insignificant. And now roughly a third of the people between 24 and 35 are out of work; 50 percent between 15 and 24 are out of work.

So this country, it's not like this country is still at the beach. This country has done, I think, some pretty significant strides, but hasn't been able, as Desmond has said, to do it in the pace that the international community demands because of their financial situation.

I think the question on how to sort of revitalize this situation, for me it starts with the political process. It's a good news/bad news story in terms of what's happened here. The way Greece has been governed over the last 40 years has been this trading off of these two main parties. There is an incestuous relationship between the political class, the business class, and the media, and they all work together to keep themselves in power and to reward each other. And the Greeks knew that. You were able to have that system and have plenty left for everybody else in the pie if the economy's growing and you're getting a lot of outside resources coming in from the European Union. But when things got tight, that no longer is able to hold as a system. And Greeks, I think, even understood this several years ago when I was there, the smart ones, that the political system has to break for something new to come out of

Greece.

So I'm very sad to see what's happening in Greece, but my hope for Greece is that this political fracture that's happened and the fact that these new parties are growing out of nowhere and the left is surging and everything else is a message to the political class in Greece that you're going to need a new system if this country's going to carry forward.

MR. WRIGHT: Desmond or Doug, would you like to come in on this?

MR. LACHMAN: I would just agree that structural reform is really desperately needed to put the country on a better long-term growth path. But I would totally agree with Kemal, you know, and this is a point that Mario Monti has made, is that many structural reforms in the short run have very harmful effects on economic growth because what they do is they reduce demand. What we're really needing to do is we're really needing to get demand. So really what you're wanting to do is you're wanting to have the structural reforms, but you're wanting to have it in the context of something driving the economy. And what that something is, is a cheaper currency. You know, there's no way around it. Otherwise, you know, you're on a path where you're going to deeper and deeper into recession.

Just on the question of the exit, you know, I would find it very difficult to see how Greece stays in the euro. The next three to six months maximum is the time I would give it before it goes out. And I've been told by Greek friends that one shouldn't be referring to it as a "Grexit," but rather as a "Grexodus." (Laughter)

MR. WRIGHT: And Doug?

MR. ELLIOTT: Yeah, I'll just elaborate on the last question as well. The circumstances that seem likely to create the euro exit would be a Syriza victory. If that happens, I think we'll be very lucky to avoid a euro exit, which I actually do think would be damaging. But I would think you've got at that point a few weeks to a few months before Greece would be out of the euro.

Your question about the larger effects of that beyond Greece, I think it depends very heavily whether Europe comes together and takes really dramatic action of an appropriate nature, which I tend to think they will. In which case there will still be damage to the rest of Europe and us, but it'll be contained. But there's maybe a one in four chance that they don't pull that off. In that case, I think, Europe has a severe recession, we have a mild recession, and China slows down substantially.

MR. WRIGHT: Thanks. We have time for one more round of questions, so if we could go to this gentleman in the middle and down here.

MR. RASHISH: Thank you. Peter Rashish from the U.S. Chamber. In terms of a big action that could have -- a dramatic action that could have a curative effect, but let's say, for example, if Syriza wins, how about what's being discussed now, this idea of a European version of Alexander Hamilton's Sinking Fund, where you'd have a one-time payoff of all the debt above 60 percent, the Maastricht threshold, would that be something big enough to make the markets take notice and to help us deal with, for example, a Syriza victory on Sunday?

MR. WRIGHT: Thank you. Any more questions? Yes, just here.

MR. LEES: Hello. I'm Kevin Lees. I'm an attorney and I also have a website on international politics. This is more of a question about sort of coalition arithmetic. You know, obviously last time Pasok and New Democracy got 149 seats together, very painfully short of an outright majority. I guess my questions are more for Daniel, and it's sort of a twofold question.

Number one, are we likely to see more pressure on a minority government? Is that a possibility this time around?

And secondly, do you think that, you know, one of the smaller leftist parties, like Fotis Kouvelis' Democratic Left, will feel significantly more pressure and actually join a coalition if, you know, the arithmetic is similar after Sunday's election and, you know, it's going to be difficult for New Democracy and Pasok to win 150 seats or more total?

MR. WRIGHT: Thank you. And then a final question, the gentleman at the very back.

MR. LARIGAKIS: Nick Larigakis, president of the American Hellenic Institute. I was actually in Greece just a couple weeks ago and I had actually a one-hour meeting with Mr. Tsipras himself, just by way of background. But be that as it may, no one's going to get 38 percent of the vote come this week, which is the magic number that you need to create your own government. The problem is Syriza most likely will get a very strong number two setting. Even if New Democracy were to be able to create a coalition, which is plausible that it could -- and by the way, there are 40 percent who did not vote, who were eligible to vote, in the last election, so there are potentially 40 percent more who will be voting this time around and most likely will vote for the mainstream parties.

One of the biggest things -- Dan, you may be able to discuss this -- in my opinion the social fabric of Greece does not allow for governments to function no matter who they are, and that is the powerful unions which dictate what goes on in Greece. Demonstrations and protests are basically a national sport and in the last year they've become basically a daily soap opera. And even if New Democracy were to win, you know, Syriza and others have pretty much vowed that they're going to put paralysis by virtue of creating, you know, demonstrations on the streets. How much of an issue is this regarding trying to move forward in any constructive way, you know, for Greece right now?

MR. WRIGHT: Thank you. If you could each just take a minute to discuss any of those questions that you would like or just to look ahead to the next two months. Are we in for a long, hot summer of the euro crisis where it's all going to come to a head or is there a chance of further muddle through for another few months at least?

So let's go in reverse order than we started, so Desmond.

MR. LACHMAN: Right. I strongly doubt that you're going to be able to muddle through. You know, to me this looks like everything's coming to a head. You've got problems in Greece. You've got problems in Spain. You've got problems in Italy. There's going to have to be some sort of policy response to contain this. This has got all the signs of spinning out of control. So my expectation is you will get quite as strong response. You should get it by June 28th, 29th. But if past is prologue to the future, what's going to be is of a stopgap sort that just really buys you time, kicks the can down the road six months.

But if we did get the idea of a redemption fund that has got something like 2-1/2 trillion euros and the Germans were really prepared to step up to the plate, then obviously that would be meaningful. But I think it begs the question as to whether Germany is prepared to allow its creditworthiness to be damaged irreparably for the sake of holding the euro together. You know, all the signs seem to be that the German government and the German electorate have got reservations about doing that.

MR. WRIGHT: Thank you. Kemal?

MR. DERVIŞ: Well, maybe three points. I mean, one is Greece is different from the others. It is in a more difficult situation and will have to be treated and whatever happens, the formula will have to be different from the rest because if it's the same formula for everybody, it won't work. So there will have to be a special whatever it is. I don't know what it is, but the approach to Greece will be different from Spain, Italy, and Portugal.

Second, in Greece itself, I repeat it, it's kind of funny that somebody from Turkey, you know, seems to be the most positive one, but it is true. I think Greece has -- actually when you look at the last 20, 30 years, there was corruption. So there was in Italy or in the other countries. When you look at the overall performance of Greece, it's really not that bad if you actually look at the numbers, the productivity numbers, the growth numbers, and so on.

It is true that the largely European subsidies led to a kind of ease of living that was unrealistic and couldn't carry into the future. In terms of sacrifice, clearly on the tax side there is need to collect more taxes. I mean, it is one of the countries with a low collection rate. But frankly, instead of putting all the blame on -- and unions with their closed-shop policies have created problems, but there is huge blame, in my view, in the top -- you know, the very wealthy Greeks of whom there are very, very wealthy ones in Greece and all over the world, more so than in many other countries. And I think the real tax evasion and the real lack of support for the country comes from that group rather than from the average Greek citizen.

And finally, the last point in terms of what can one do in the short run, I am afraid, again, it's the ECB that is the only institution that can move rapidly and on a scale large enough to contain the problems, to generate space for structural reform. All the other things require too much political negotiation, too much time needs to pass before they can kick into action, and I'm afraid we don't have the time.

On the other hand, if the ECB wants to act and is allowed to act, then I think it can. It has the firepower. There are articles by various economists who estimate that up to 2-1/2 trillion euros it wouldn't itself run great risks. There may be some inflation in Europe, which may actually be a good thing. And if the ECB steps in decisively in supporting the sovereign debt on the secondary market, it doesn't have to do it on the primary market -- it cannot, but on the secondary market it has the legal capacity to do it -- then I do believe at the end of the day that the crisis can be contained.

Let's not forget that the eurozone as a whole has no current account deficit compared to the U.S., which has close to 3-1/2 percent; that the eurozone as a whole, the debt-to-GDP ratio is still below the U.S. debt-to-GDP ratio; and then when you take the eurozone as a whole, the overall budget deficit is smaller than in the U.S. So I think there's need for action.

There is need for Europe to act as a whole, the eurozone at least. I think with the right policies, with the right action, the crisis can be managed. Even Greece, because the size is small, can be restructured and may be outside the euro, but with help from -- but not outside the European Union, so with help from the European Union. There are things that can be done. There are very strong economies in Northern Europe, but the big question is, I mean, is there a Europe at the end of the day? You know, is there going to be Europe or not?

MR. WRIGHT: Thank you. Daniel?

MR. SPECKHARD: Okay. On the first question on the politics, the small parties will be absolutely essential in this next go-around. If you look on the center right with New Democracy, there are four parties that have roughly 18 percent of the vote in the last election. Those parties were actually offshoots or splinters from New Democracy, so to the extent that these people are willing to give up their desire for their own grand new plans and join the New Democracy in a coalition government to keep the country inside the euro, you will have a very positive dynamic there.

On the left side you have a splinter. It was Syriza and Kouvelis, as you mentioned, which is the Democratic Left Party. But they have much less room. Syriza maybe is in the 22, 23 percent and this other party's maybe 8 or 9 percent potentially maximum. So I see much more upside on the center right than I do on the radical left, so I would take some positive feelings into that as we go into the next election and the outcomes.

In terms of Nick's comment on the unions, I mean, you're absolutely right, the unions have been enormously powerful in this country. I think, though, they have had a significant challenge over the last couple years. And the problem is not so much that they're not willing to give up things. They already have had to give up a lot. The challenge in my mind with the strikes and so forth is it's the iterative process of what's been going on. We've been taking the Band-Aid off piece by piece by piece. So had it been two years ago, this is the program, you all have to live by the program and this is what we have to do, but what happens in the new cycle is every three months, well, that wasn't enough, now we have to announce some new austerity measures. They may be justified, they may be needed, they may be reasonable in terms of the structural reforms, but in the political dynamic in the country it's not sustainable and that's why you get people on the streets.

So where that leads me to where we're headed, I think we're headed towards a long, hot summer. But what I would expect is, what really should be happening is, Europe needs to get Greece to the side so they can solve the bigger problems. And getting Greece to the side is just calming the system down enough to let them work on it and try to get to a new that's good for Greece, that's good for Europe. The worst thing is that if we push this over edge quickly.

MR. WRIGHT: Thanks. And Doug?

MR. ELLIOTT: Yeah, I would just second and slightly expand on the way Kemal ended, which is when you take the eurozone as a whole, it's in many ways stronger than us. So Peter, yes, if you had the eurozone doing that kind of mutualization of at least part of the debt, I don't even know that you'd have to do that way or that far. But if you're holding a Spanish or an Italian bond and you know that in some sense you've really got a euro bond because the zone will be behind it, yes, that would help dramatically.

And as Desmond has pointed out a number of times, the truth that you would need to get political leaders to go well beyond what they say they've been willing to do, I just think we're in a situation much like what we had with our debt ceiling debate, where those who were experienced in Washington knew that we would get an answer. But up until like the last hour, you could plausibly argue they weren't going to come together because everybody had said their positions were here and here, there was no way to get in the middle.

That's my hope here actually is that, at some point, they'll be standing on the edge of the cliff, they'll look down, and they'll realize they have to do what they have to do to stop it. And I'm hopeful they will.

MR. WRIGHT: Thank you. I would like to thank Justin Vaïsse and the Center for the United States and Europe for putting together today's event. I'd like to thank our speakers and our panelists for a really terrific conversation. And thank all of you as well. (Applause)

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