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THE GREEK ECONOMY AND ITS GLOBAL PARTNERS:
A CONVERSATION WITH
GREEK FINANCE MINISTER YANIS VAROUFAKIS

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P R O C E E D I N G S

MR. DERVIŞ: Thank you, ladies and gentleman, friends. Good evening, Yanis, welcome to Brookings. This was a much expected event and we've had trouble accommodating everybody who wanted to listen to you. I'm really grateful that you took the time out of the very busy meetings here, of course, to share your perspectives with you. You're a well-known PhD in economics from Essex, many books, 15 books. I don't know all of them, but I'll note two in particular, *The Global Minotaur: America, Europe, and the Future of the World Economy*, two years ago. And *A Modest Proposal for Solving the Euro Crisis*, two years ago also.

You were elected to the Parliament in January 2015 from Syriza. So I welcome you very deeply on the part of Brookings, the whole Brookings community, the various programs that are hosting you today. All of us, the whole Brookings family, I welcome the Minister — Mr. Ambassador, not yet, and all personally. And I can't help saying that I also welcome the Minister Yanis Varoufakis, Yanis, as a neighbor, as a Turk.

Okay. It's your floor and then we'll have a discussion.

MR. VAROUFAKIS: Thank you, Kemal. It's with the deepest gratitude that I wish to thank you for this honor and privilege to be addressing such a fine institution. The crucial moment when our government is shouldering a momentous task. That of completing successfully, and as soon as humanly possible, the current negotiations with our partners, both European and international.

The reason why I shall be focusing on these negotiations is their global significance. Not so because of the risk of contagion through the financial circuits that frightened people so frightfully back in 2010 and then again in 2012, but because the outcome of our negotiations, the Greek government's negotiations with institutions, will influence, I believe, heavily Europe's attitude toward a larger problem located in the fiber of our democracy's and within the foundations of our real economies.

After all, lest we forget the Greek debt drama of 2010 was a harbinger of much that followed throughout large sways of Europe. Indeed, of countries further field. Its resolution, one way or another, in 2015, now, will surely prove equally influential at the global level. Now, one may be excused to think, influenced by the candidly nominate narrative that Europe is on the mend, that it has overcome its crisis, that the combination of large bail-out loans and stringent austerity, especially in the peripheral economies, has worked. And that only Greece has failed to jump on this bandwagon towards recovery for reasons that have to do with our own very Greek, peculiar failures.

Now, the Greek public and private sectors are, and have been for a long time, replete with malignancies which require urgent and extensive and intensive treatment. There is no doubt about it. Indeed, the Greek themselves were so incensed by the lack of reform that they even went as far as to elect us, the party of the radical left, to lead the country.

Nevertheless, Greece's chronic malignancies cannot explain the depth and stubbornness of our current crisis, of what has become, sadly, Greece's Great Depression. Our seven year old and long winter of discontent. To explain this, one needs to cast a critical gaze upon our monetary unions' design faults, and how they went — these design faults of the Euro Zone went into an unholy alliance with our nation's, the Greek nation's failings, to produce a (inaudible) crisis in Greek. One that has degenerated into a humanitarian emergency. And one crisis and emergency which has global significance, as I was saying before.

Now, take a look at the rest of Europe. Even in nations portrayed as the shining lights, the beacons on the hill what you will find is investment, productivity growth, and improvement in living standards that can only be described as dismal even when compared to the American capital recovery of the last few years. Europe's powerhouses, forget Greece for a moment, Europe's powerhouses, the surplus economies of Northern Europe, countries that are turning the corner rely almost exclusively for doing so on building up current account surpluses either in relation to other Euro Zone member states. This is an intra-European beggar thy neighbor zero sum game or against the rest of the global economy, a global beggar thy neighbor zero sum game of the kind that we thought was confined to the distant past around the Bretton Woods conference.

The combination of a glut of savings in Europe, of high public and private debts, of low investment, of low interest rates, and generalized austerity is causing Europe to address its crisis by exporting it to the rest of the globe. While undermining further the real economy of its own peripheries, both the periphery of the eurozone and peripheries within the surplus states. Put simply, the current policy mix is increasingly turning Europe into a (inaudible) force that behaves as an exporter of idol savings, an exporter of deflation. Put even more simply, if China's external balance was a problem a few years back, I believe there's good cause to think of Europe as a graver concern for the global economy.

None of this all goes well either for Europe or for the global economy. And likely as it may sound at first, I submit to you, ladies and gentleman, that the outcome of Greece's negotiations with the IMF, the European Central Bank, the European Commission, our partners, our fellow Europeans, the outcome of this negotiation will play a major role in determining whether Europe aides or impedes the rest of the world's efforts, and the United States' efforts, to put behind them the crash of 2008 and its stubborn repercussions.

Within this context, the context of the global significance of Greece's negotiations with the European institutions and the IMF, our global partners. Let me turn to a couple of pertinent questions. I'm often asked, why are you being so difficult with this negotiation? Why can't you just settle it quickly? Rest assured, ladies and gentleman, that our government is keener than anyone to bring these negotiations to a successful and quick conclusion. And that we certainly do not believe that we have any kind of monopoly on good ideas regarding the kind of reform program which is necessary in our country and in the rest of the Euro Zone.

The longer these negotiations go on, the greater the asphyxiation of our social economy and the greater the delay of essential reforms. So we're certainly more eager than anyone else to conclude them. However, the operative words here were a successful conclusion. Not yet another version of extending and pretending, of the solve that for five years now has been turning a drama into a crisis of global significance. A continuation of the extending and pretending that gives Greece's debt deflationary spiral yet another 12.

Now, let me share a thought with you. Nothing would be easier for me personally, nothing would be easier for my Prime Minister, Alexis Tsipras, nothing would be easier for our government than to sign on the dotted line of the existing memorandum of understanding of the existing program. Nothing would be easier than pledging to do as it says like previous governments ritualistically did. Always pledged everything that was asked of them. And in that way to collect 7 billion very quickly and immediately answer the questions that the good people of the financial press are posing full of angst for us regarding our liquidity situation.

Except that it would be the wrong thing to do. It would have been the wrong thing to do by our creditors, wrong by our partners, wrong by our people. And when I say our people I mean not just the people of Greece, but equally every citizen of every member state of the Euro Zone. We are one people.

Why would it have been wrong to add (inaudible) our signature to the logic to the philosophy to the pre-existing program? Because, ladies and gentleman, this program constitutes a recipe, a treatment, that no reasonable person can consider to have been successful. The insistence that we should continue with its logic, its philosophy, and its policies is bound, in the medium term, to reinforce an image that we need to expunge. The image of Greece as a bottomless pit, an image that causes must frustration amongst our global partners while it engulfs our nation in unbearable hopelessness.

Now, track records matter, and the track record of this program that we inherited from the previous government is a sorry one. To paraphrase John Maynard Keynes, economic consequences of the peace. We are not going to sign up to targets we know our economy cannot meet by means of policies that our partners should not wish to impose upon us, not just for our sake, but for the common European and global interest.

Ladies and gentleman, in 2010 the Greek State ceased to be able to service its debt while nominal GDP was falling. Europe's banking system has become, more or less, insolvent. The growth prospects of our trading partners were abysmal, and the global credit crunch ensured that interest rates would be going up.

And how did we deal with this problem as Europeans? By means of the largest loan ever on condition of a massive internal devaluation and a (inaudible) program that was bound to shrink violently the incomes from which the old and the new debts would have to be repaid. Now those loans were naturally extended to the Greek government in the context of a debt sustainability analysis. I don't have a diagram to show to you, I had one, but in the end it turned out that we don't have the facility to project it. But if you look at projections of nominal GDP growth made in 2010 by the IMF, then again 2011, then again 2012, and the reality you realize that seemed coldly and dispassionately we are talking about a massive predictive failure.

In an important sense, these are heavy words that I'm going to use. Greece went from a period before 2008 of (inaudible) growth, of growth fueled by unsustainable borrowing to a period of (inaudible) austerity which is what I call serious stringent austerity funded by unsustainable borrowing.

I'm asked also these days, why did other countries on which the same policy was tried to experience a catastrophic collapse like Greece has? The reason, ladies and gentleman, is very simple. We suffered significantly less austerity. We had -- we are the champions of fiscal consolidation. We had more than 11 percent of a reduction in the deficit. This is unprecedented in peace time. And if you plot a diagram with fiscal austerity, fiscal consolidation on one axis and what happened to nominal GDP on the other you'll find that Greece is following a pattern, but because fiscal austerity -- a negative pattern, a negative relationship between the two, but because our austerity was so much more stringent than anybody else's the collapse of national income and all the repercussions that come with that was much greater.

In this sense, Greece is a classic outlier. Having been the first to be bailed out in a Euro Zone in which, let me remind you in 2010 bailouts were banned, our country ended up an experimental lab in which much improvisation occurred to the benefit of others. Greece took a hit for Europe because of our own economic and social failures, I insist on that. We took a hit on Europe's behalf because of our economic and social failures that made sure we were the first domino to fall. And, of course, due to the Euro Zone's design folds.

So our particular failures were exacerbated by the hit we took for the team. History will tell the story how a series of insolvencies in the Greek public and private sectors were pushed under the carpet, portrayed as cases of ill liquidity. History will also register that this was an abuse of the notion of solidarity. Greece was never really bailed out, as only 9 percent of the very large loans that we took over the last few years went to the Greek State. The rest went to the banking sector. And finally, the historical record would show that the reform program that accompanied the loans was precisely wrong.

If one is to rank all the cases of malignancy, of rent seeking, of oligarchic practices in Greece from the worst case to the least offensive one you'll find that the reform program over the last five years started from the bottom not from the top. And, indeed, the vested interests that lurked at the top were the ones backing the government that was pointing moralizing fingers at the majority of Greeks who may have been micro-parasitic, but nevertheless, who could not be easily persuaded to reform themselves when being told to do so by the greatest rent seekers who thought that reforms were never for them.

Unsurprisingly, as a result of this extent and pretend practice, debts, both private and public, skyrocketed. Banks seized to function as credit providing institutions. Investment dried up and all we have had over the last few years was a slowing down of the rate of shrinkage of our economy as all the fat went, then the muscle, and then we were proceeding to the bones of our social economy. It is often said that 2014 marked a recovery of sorts. A very mild, very fragile recovery, but a recovery. I beg to differ on this. What happened in 2014 was nominal GDP, GDP in market prices continued to fall, but our market prices, on average, were falling even faster. That is not my definition or anybody's definition of recovery. It's a definition of what happens when you go from recession to depression.

But that's all past history. We are now negotiating a very simple principle. On the one hand, we have an existing program that the Greek State is committed to legally, legally bound to. And surely, states have a continuity, and therefore, there's no doubt that our government, even though we were elected to challenge the philosophy, the logic, the essence of those policies we're bound to them. This is a principle of democratic states. But there is another principle too. A democracy should matter for something in some degree.

The fact that we have a mandate to challenge the philosophy of the program that we inherited should also make a difference. So what happens when you have two different principles that are clashing with one another? That's what democracies are for. In democracies you have various principles that clash with one another. The principle of liberty versus the principle of justice or equality, or the rights of individual against the interest of the collective. This is what we do in democracies. We blend together contradictory principles.

This is precisely what we try to do upon our election. We tried to convince our partners in the euro group, in the European Union, organs at the IMF that what we need to establish is a common ground on which to build a new set of conditionalities. A set of conditionalities that we would all, I'm sure, have agreed upon had we started afresh so that we overcome the inertia, the institutional inertia, of a program which I'm not sure -- well, actually I am quite sure that almost everyone had they had the chance to start afresh, to start (inaudible) would have considered to be a failure and would not want to continue along those lines.

But you know how bureaucracies are. How very complex organizations are, and there's nothing more complex than the Euro Zone system or lack thereof, managing our collective economic prospects. They tend to develop a life of their own, and they tend to be subject to inertia. And it's very difficult to shift once you have embarked upon a certain path. We would not be putting ourselves in this situation, in this very harsh negotiation if we didn't think that the path we have embarked upon for Greece is a path that could get us to a good place. We are convinced that it can't.

The Greek people did not vote for us because they believed the Greek success story of last year. They voted for us because they knew that it was smoke and mirrors. In this negotiation we are not trying to impose our will upon our 18 partners in the Euro Group. We had a mandate, so do they. I accept this fully.

What we are asking for is for the opportunity to do two things. Firstly, to be heard. To have our proposals for the way in which the Greek social economy must be reformed, discussed in good faith. And the second thing we are asking for is for the time and the space in which to allow this conversation to take place so that we can do the one thing that needs to be done. And what is that one thing? We need to convince our partners, especially in Northern Europe, that this government is not about going back to the profligacy of yesteryear. And they need to convince us that they are serious about rebooting a series of measures, programs, a fiscal consolidation plan that has failed.

This negotiation must succeed. And the reason why it must succeed is because as Mario Drahgi very correctly said a few months ago, "For the euro project to succeed anywhere it must succeed everywhere." Greece insists on being part of that everywhere. Greece believes that a new government that the Greek people have elected is offering our partners, despite our significant political differences, a chance for pluralism and democracy to prevail within a monetary union which knows how to acknowledge errors and do what the United States has done with such great success in the 19th and 20th centuries. And what is that? Create consolidation out of the crisis.

In Europe we like to think that we have achieved that, but we've learned the lesson. Well, we have consolidated. That we have created new institutions which are allowing our monetary union to evolve and to develop the mechanisms that they lack or lacked by which to counter a major earthquake, shock like that of 2008. I do not believe we have done that. I believe that in many ways we have proclaimed in name that which we have denied in practice. For instance, a proper banking union.

This government, with our quirky left-wing background, I admit, is dead keen to come to an arrangement with our global and European partners that will situate that Europe consolidates in a manner that creates greater efficiency, genuine growth, overcomes the major productivity failures and investment failures of the last few years, not just for Greece, but for everyone, in a way that allows all Europeans, especially those who are critical of the institutions of Europe, to remain within the Europeanist camp which is where our cities, our government, firmly locates itself. Thank you very much.

MR. DERVIŞ: While we get wired I just want to thank, again, Minister Varoufakis very much for his really excellent speech, I would say. I just want to say two things. One is I want to introduce David Wessel, my partner and friend here today on the panel, who's a director of the Hutchins Center on Fiscal and Monetary Policy. He joined Brookings about a year and a half ago. He was at the Wall Street Journal most recently as economics editor. He is the author of two New York Times best sellers in 2009 and 2012, *In Fed We Trust: Ben Bernanke's War on the Great Panic*, published in 2009, and *Red Ink: Inside the High Stakes Politics of the Federal Budget*, 2012.

He shared two Pulitzer Prizes in '84 and 2003. One for the Boston Globe series on the persistence of racism in Boston, and in -- that was 1984. And in 2003 for stories on corporate scandals. So I'm glad that David is here, and I'm also very glad that Glen Hutchins is here who makes much of all this possible. Thanks for being here, Glen.

Now we're going to have a discussion and we all look forward to it. I'll let David ask the first question.

MR. WESSEL: Thank you. Minister, thank you for your very clear remarks. To an outside it seems as if there's very little overlap between the policies that fall within your Syriza mandate and the ones in which the IMF and your European partners are insisting. So it's hard for us to see how this comes to a happy conclusion, and there's been speculation that one option here is to have some kind of referendum on staying in the Euro Zone or perhaps a snap election ends up with a different coalition. Is that part of your game plan now?

MR. VAROUFAKIS: This is an easy question to answer. Absolutely not. Let me be precise.

MR. WESSEL: That was pretty precise.

MR. VAROUFAKIS: In terms of the first part of the question, now, you mentioned or you alluded to a great gap between the policies that are being pursued by our government and the policies that could be acceptable to our partners. I don't think it's that great. Remember what I -- the P word that I used, pluralism. We used to live in societies where we tolerated differences of opinion and different mixes of public and private virtues.

So you recall in the 70s, and even in the early 80s, we used to take great pride of the fact that we lived in a mixed economy where we had the public sector playing an important role. Where we had conventions and norms of collective bargaining that created a safety net in the workplace. Where we had a social welfare net that also played the same role regarding humanitarian issues. We had public enterprise. You had private enterprise. And I remember that one of the great arguments in favor of capitalism back then in the old Cold War days was that precisely this pluralism.

Now, what we are bringing to the table here is the notion that this monoculture where everything public must, by definition, be problematic and everything private, everything that is deregulated must necessarily be on the wrong virtue. That monoculture has not worked very well. It hasn't worked very well here in the United States and I don't believe it has worked very well anywhere.

Now, what precise mix we use and we opt for is another matter. But let me be a bit more precise regarding some of the policies, and this is where I'm going to be specific. Privatization, pensions, labor markets. Just to pick three out of the hat, almost at random. Take privatizations. Let me tell you what our policy is on this.

Firstly, look at the privatizations that took place in the last few years. They were disasters. Firstly, they were a disaster from the point of view of legal public rights. So a number of significant ones collapsed when they were taken to the high court, Greek High Court, to the European Competition Commission, so you have private investors that go through the arduous process of securing a bid, of winning a bid, an auction. They get the property rights. They make an investment and then the whole thing goes belly up. So there is this aspect. This is neither left nor right. It's a question of efficiency and the security of property rights. We want to change that. I can give you many examples of this.

Secondly, we are in the middle of a great depression. Now how clever is it to try to sell public assets when asset prices are through the floor? At such a time without things attached, and then take these few pennies that you get and put them into the bottomless pit of an unsustainable debt. I don't think this is an apt use of public assets.

So what we're saying, we're not against privatization. We're against this kind of fire sale that doesn't even dent, even a little bit, our debt situation. So our policies, just to wrap this up, it's simple. We want to impose minimum investment levels on the winning bid, so as to give a developmental dimension to the nationalization and privatization. Secondly, we want to have a deal with the winning bidder regarding minimum labor standards, minimum environmental standards.

We also want to ensure that the local economies are cut into the deal so that there is both national and local developmental effect. Is this something we cannot discuss sensibly with the IMF and our European partners? I think it is. I don't think that Mrs. Thatcher would do privatizations the way that the previous government did.

Take pensions. There's no doubt that our pension system is in trouble, but how could it be otherwise? We have a collapsed labor market. We have a massive reduction in number of people who work and who are capable of making pension fund contributions. We have more than 30 percent of paid labor being undeclared labor. So when we look at the problem of the pension system and the labor market they're intertwined, and our government is simply saying that cutting and pasting from the IMF rule book the ideas about labor market deregulation's completely useless in Greece.

We have the most regulated market in the world. We are, as I keep saying, a libertarian's wet dream. Nine percent of unemployed people receive unemployment benefits. Nobody else, 9. Okay? Let me put it differently, 91 percent of the unemployed have never received one euro of unemployment benefits. Now how much more can you deregulate this labor market?

We have half a million workers who've been working for more than five months and haven't been paid a cent. Why? Because of the recession, and they keep reporting to work in order not to lose their dignity, in order not to lose their claim to the company, to help the company survive so that they don't lose everything. Now what we're saying is that in that environment smart collective bargaining agreements similar to the ones that they have in Germany that we want to hammer out in unison, together in collaboration with the ILO, will help reregulate markets not in an inefficient way, but in a way that brings the fallen part of the labor market into the labor market, into the fallen part, and at the same time deal with the pension problem.

Now one of the things that is impeding a conclusion to this negotiation. It's quite well known. I'm not breaching any confidences by saying this, is the demand that we do not stop an automatic law that was voted in by the previous government that would have secondary pensions cut by almost 90 percent. That can mean that somebody on a €600 a month pension will have to lose €180. In the middle of this humanitarian crisis, in the middle of this recession we want to put a freeze on this. We are accused of rolling back reforms. Now why is the reform to reduce low, low, low pensions? It's a cutback, but I don't see any serious reform. We want to reform the pension system.

Now, of course, when they ask us, so how do you envisage the pension system to function in the next 20 years, I have to admit to you I don't have an answer that goes beyond a general description of principle. But when France, Germany, and the United States managed to answer that question we will answer that question too. I may take a little bit more than a few weeks. No, to be serious now, what we are asking is for the absolutely sensible principle that we're a new government. We need to come to terms with our partners on four or five large reforms that need to be instituted tomorrow, which we can do because we have common ground on these, on a number of them.

Maybe if there are disagreements we will compromise. We are perfectly prepared to compromise. Introduce these reforms, come up with a rational fiscal plan for the next five, eight years, not the one we have now, 4 1/2 percent primary surplus for the foreseeable future in a depressed economy without a banking system that functions properly as a created system is absurd. And once we get this agreement going then we can keep negotiating until, and our intention is, in good faith to reach a new contract with our partners by the end of June that will create a sustainable Greek economy so that we can cease having these conversations.

MR. DERVIŞ: Let me make two points and ask a question. The two points I think which you partly already covered, but I want to emphasize them. That balance sheets are more important than flows. I mean, we had the same discussion with Minister Schäuble. If you focus just on the flows of one year you miss a lot of the story. If a country, we're talking about Germany, can invest at negative interest rates and create positive assets expenditure may go up, but, in fact, the balance sheet of the public sector improves. And that's a point, for example, Larry Summers makes all the time.

So one of the issues, I think, between the Fund programs and, you know, discussions not just on Greece, but on other countries is this importance of having truly a medium term framework rather than an annual expenditure limit. I think you alluded to that.

The second point, and I can't help wanting to support Yanis in that, is privatization. I had the same experience. When I was in, kind of your job, in Turkey --

MR. VAROUFAKIS: When?

MR. DERVIŞ: Yes, I was in your job. You know, one demand was privatize everything, immediately, at whatever price you can fetch. Well, that is not good for public finance. I'm sorry, and I refused. We were asked to privatize Turkish Airlines and allow a foreign strategic investor to buy it. We refused. And today Turkish Airlines I the airline that flies to the greatest number of countries in the world and is quite profitable, and is still a state enterprise, but open to small, private investors.

So, you know, when we talk macroeconomic policy we always discuss 4

1/2 primary surplus, 1 -- when we say structural reforms somehow there is something under there which, I think, we have to get into the details of to see whether they are good and bad. And replacing the public monopoly by a private monopoly, I mean, even if one is a perfectly, you know, liberal economist, is not a good idea.

So anyway, just two things that I have to get off my chest. But I think, Yanis, there's one thing that could have -- I wonder -- I mean, you made a very strong point, very, very strong by saying, you know, the people of Greece are the same as the other people in the Euro Zone. I mean, we are the people of the Euro Zone. Don't you think that at the beginning it would have been better to somehow give the message, or maybe the press distorted the message, I don't know. Although, I mean, you know, the press was quite careful at times. That there are two sides to this being part of the Euro Zone that they have to respect, I mean, they meaning your creditors, have to respect Greek democracy and the will of the Greek people are realize the suffering that the Greek people have gone through.

But at the same time, that the Greek government, if it wants to be in the Euro Zone and in the European Union, cannot just do whatever it wants. And the message came out, we've been elected. We've got the support of the people. We'll do whatever we want. And that -- you can do it outside Europe, you know? But inside Europe you do have to, kind of, stress that the European agreement is needed.

MR. VAROUFAKIS: Let me start with your last point. Then go back to some of the earlier ones only because I'm very interested in them. You're quite correct. I did mention it before that having one mandate in the election of the 25th of January we didn't win the right to do as we please. I mentioned, remember, that these are mandates and there are another 18 mandates.

But the point I made was that it gave us that mandate the right to say --

to put our hand up and say, we would like to be heard about issues of the utmost importance to our social economy. When we are in a great depression we have a humanitarian crisis. We want -- my request of the first Euro Group I attended, was I asked for four weeks during which in peace and quiet, without the threat of liquidity asphyxiation, without all the various reports and actions that gave rise to bank run. To sit down, to be allowed a month during which to -- once we have control of our ministries to come up with a plan and present it to our partners.

And then I asked for another month during which to come to an agreement, a bridge agreement we called it. This was our strategy. We never said that we are going to -- you know, we're not irresponsible fetuses that think that, you know, we have the right to do anything we want. That was never the point, but that we have the right to be heard, and we have the right to challenge the logic of a program that has clearly failed. I believe that that was not to ask for the moon.

On the other two points that you mentioned, first regarding privatizations. We are adamantly undogmatic about privatizations. We don't have an answer to the question are you in favor, are you against? The answer to this question is which privatization? If you ask me about the railways, about the ports, about electricity generation and distribution, if you ask me about the horse racing outfit of electronic gambling I'll give you different answers depending on the particular case.

And lastly, and that is, I think, very important. You mentioned the distinction between balance sheets versus stock flows and regular economy. We are a very particular economic union. We have governments without central banks backing them, and we have a bank -- a central bank without a federal government backing it. This is a unique state of affairs. Ideally, we should complete this by creating a federal government and a fed, but, of course -- and this is a sad realization that I am sharing with you.

This crisis, that began in 2008 and ’09 and ’10, instead of helping us come closer together it is creating centrifugal forces that is making the political process of unifying even harder. And that is something that we should lose sleep over. As Germans, as Greeks, as Portuguese, as Finns, as Slovaks, as French. I left out the Irish and some others, please forgive me.

Once you are caught up in this monetary union that has very peculiar forms of governance, as well as constraints, to labor under you end up with a complete lack of coordination when it comes to investment policy. So the argument that you mentioned earlier, that you discussed, I wasn’t here and I didn’t listen to it, I wish I were, with Dr. Schäuble, about Germany’s capacity to invest, to borrow, at negative yields, at negative interest rates, okay? That is very different. I understand your argument, but I also understand the fear of a government that does not want to have a debt to GDP ratio that exceeds 60 percent.

In the case of our government, there’s absolutely no room, no fiscal room for a standard deficit spending investment program. However, and this is a big however, Europe as a whole, the Euro Zone as a whole, is typified not only by a mountain of great private and public debt, which we do have, but there’s another mountain hiding behind us. The mountain, huge mountain, of idol savings with nowhere to go. And it should be our joint project to energize, to motivate those idol savings to help them overcome their great fear that keeps them idol, and channel them into productive investments. Not investments into assets, but investments into a real, productive capacity.

Now how do we do this? Well, we have a European Investment Bank that could do this, and we have the European Central bank which is embarking upon quantitative easing. Well, why can’t the EIB fund a major new deal for Europe that channels investment to the private sectors of the countries and the regions within countries that have a major output gap, great deflationary forces running through them? With the ECB standing by ready to jump into the secondary markets, to purchase these EIB bonds if their yields start going up.

Now, have you noticed that there's no mention of a government here. There's no need for a government to be involved. This is not deficit spending by Germany, by Greece, by Portugal, by anyone. It's all money that is borrowed by the tax payer. It is money that is borrowed by the IEB on banking principles as it has been doing for decades. But you have the ECB playing the role that simulates a federal government in the context of smart quantitative easing.

So I'm only mentioning this because we need to have an answer to the question. Okay, you don't have federation. You don't have the political dynamic that can lead you to one. How can you respond differently from self-defeating austerity? I just wanted to give just one small example of the kind of out of the box thinking that could get us there. But to do this we need to begin trusting one another, so I come back to the original question. We have to earn, we Greeks, have to earn the trust of our partners. But they must also acknowledge the fact that for five years now a particular program has been imposed upon our nation that has been making a bad thing worse.

MR. WESSEL: Okay. So let's say I buy your analysis, but there's a certain reality here. You owe so money. Yet you can't afford to pay unless they open the spigots. Schäuble says to us, it's up to them. They meet my conditions or I'm not going to let them have any money. Not quite how he put it. He says that, look what's going on. The Greek yields are rising in the bond market. There's no contagion to Portugal, Spain.

Olivier Blanchard says it won't be smooth sailing if you have to leave the euro. It could probably be done though. Aren't you inexorably walking here to a point at which you have very little leverage left and you basically have to default, and then what happens after that?

MR. VAROUFAKIS: I would willingly, eagerly, and enthusiastically accept any terms offered to us if they made sense. I would have no problem with a memorandum of understanding if it was founded upon a reform program that attacked the worst case of rent seeking in Greece and made the reforms that were necessary in order to enhance efficiency and social justice.

If it came from the Planet Mars, if it came from Berlin, if it came from Brussels, if it came from Portugal, from Slovakia, I don't care where it comes from. I would have embraced it. The problem we have with these conditions, you know, the take it or leave it conditions is not so much the authoritarianism. It is the fact that we've tried that medicine and it hasn't worked.

MR. WESSEL: Okay. But so what happens if you can't come to a resolution.

MR. VAROUFAKIS: Hang on a second. I'll come to that. That's the second question. These days I'm told that liquidity is drying up in Greece, and it is, but you know what? There's a reason why it's drying up. The reason is that the previous government in its infinite wisdom decided to try to retain power by starting a bank run, by saying, in no uncertain terms, that if we win the ATMs will be shut the next day. Now how it is possible is that for a sitting government when the opinion polls are clearing showing we are going to win to stop the bank and not survive?

At the very same time, you had voices from within the system, the Euro system, the system of European Central Banks warning that if we win there would be liquidity restrictions, and that the moment we won the liquidity restrictions started happening. On the 4th of February, the day after I visited London and inspired some enthusiasm in investors' minds to the extent that the stock exchange went up by 11 percent the next day. The ECB removed the waiver, and then started imposing stricter and stricter restrictions on the commercial bank's capacity to participate in (inaudible) running over. So the liquidity was being squeezed while at the same time the demand for liquidity due to the fear that was being propagated within the system increased.

It's like, you know, imagine I take a band, an elastic band and I tie it around your arm very tightly, and then I say to you, oh, you have a liquidity problem with your blood vessels in there. You're going to become gangrenous. What are you going to do about it? I don't think that this is the way that our European Union and our monetary union was meant to function.

Our answer to your question is very simple. We will compromise. We will compromise. And we will compromise in order to come to a speedy agreement. But we're not going to end up being compromised. This is not what we were elected for. We were elected to put an end, draw a line, at the debt deflation re-spiral. And to the fact that the reform program that was perpetuated in Greece, imposed in Greece, was badly designed and administered by those who had to be reformed, but who were refusing to be reformed.

If this means that Europe is going to stand idly by while a young government is snuffed out then I have to say that our only rational pro-European response is to spend every waking hour, moment, second trying to reach an honorable agreement with our partners. We shall endeavor to come to reforms along the lines that I mentioned on privatization and pensions, and -- and at the same time make a commitment that is cast in stone on even, you know, penned in our own blood in order to increase its capability that we shall never slip again into a primary deficit.

This is what we're committing to. We're inviting our global partners and

European partners to meet us, not halfway, one-fifth of the way, and we expect them to do this. Why? Because toying with Grexit, which is something we don't do. We are refusing to discuss it because, as I've said before, even worrying about it is like worrying about being hit by a comet in a universe in which comets are attracted to you if you're worried about them. Toying with Grexit and ideas of amputating Greece is profoundly anti-European because anybody who claims that they know what the effect of a Grexit is are diluted.

MR. DERVIŞ: Let me come in and here say because you weren't here Yanis, but I must say that when Minister Schäuble, Wolfgang Schäuble was here an hour ago he also ruled out Grexit and expressed his confidence that a solution will be found. And I was quite, kind of, happy to hear that, and he said it quite strongly. So I think, I mean, I take everybody, I think, is trying to find a solution.

Now, let me ask you the following. In the experience of the IMF and of the World Bank and of debt issues, there is the precedent of saying to a group of countries, bring up your reform program. We will suspend your debt payments, but the final debt agreement will come two or three years later provided that your reform program -- I mean, there can be changes negotiated during the two/three years, but provided that your program has been carried out. In other words, Greece would suspend payments, with the agreement of the creditors, including, by the way, IMF payments, in exchange of an agreement of reforms. But would also commit, this is not restructuring done upfront, the real legal restructuring or re-profiling if you like, or change of interest rate, or whatever you call it would come after, let's say, two or three years of a period during which the program is carried out.

So to me -- and there is this experience that has been actually successful for a group of low income countries. It has never been used for a middle income country, but I kind of wonder whether the seemingly unbridgeable gap because, you know, without -- when you make the debt payment you run out of money, and you don't have the time right now to build the whole program. So that way you could have the time to build up a program. In the meantime, your debt burden would be relieved. Your primary surplus could go down. At the same time, the creditor community and the international institutions would not write off any part of your debt in a complete way or agree to any change in interest rates in a final way.

MR. VAROUFAKIS: Well, this is such a radical proposal that I didn't even think about it myself.

MR. DERVIŞ: Wow.

MR. VAROUFAKIS: Our proposals are extremely moderate by comparison. If this is put to me, I can assure that I'm going to look at it, firstly, with disbelief, and then a few minutes later with glee and satisfaction. We don't need that degree of generosity from our creditors. If we get it we'll be very happy.

What we need is to stay faithful to the spirit of the 20th of February agreement at the Euro Group level which allowed Greece to be the author or co-author of its reform agenda. We'd ideally like to get down to work of actually discussing the actual bills that will go through Parliament to effect these reforms. We've been pushing for this. Instead, however, we keep hearing that there has to be a comprehensive review, the kind that never happened the last two years, it has to happen within a few weeks of our government having been elected. But nevertheless, we go along with that.

And what would be, I think, very (inaudible) would be to separate the conditionalities for closing the final review of this current program on the basis of four or five major reforms that need to be done, and can be done in the space of the next few weeks. Because, let's face it, this is a timeframe we're facing. And then do what you're suggesting by the end of June which is, again, by -- I mean, you know, fairly soon. But nevertheless, we are prepared to do this, by the end of June come to an agreement about the long term.

That is what we're proposing. That is what we've been keen of right from the beginning to effect. The separation, therefore, of the current review from the medium and long term is, I think, essential for avoiding the accident and creating circumstances for Greece's recovery which, by the way, let's say a few things on an optimistic note. If we make this, and I believe we will, and I'm greatly encouraged by what Dr. Schäuble said in this hall an hour or so ago. If there is a declaration similar to that of Mario Drahgi's of 2012 that the Euro Zone will do whatever it takes to remain indivisible.

And at the same time there is an announcement of an agreement between Greece and its international and European partners on a number of things. Firstly, fiscal matters. Let's agree on appropriate fiscal primary surpluses that are not exorbitant, as they are now. Substantial investment packages through the European Investment Bank, a way of writing off non-performing loans from the banking sector in order to unclog, de-clog the credit circuits. Privatization policies that are aimed for development and social security and safety rather than fire sales. A debt restructure proposal that doesn't have haircuts, and in the end ends up giving more value back to our creditors through GDP index bonds. And at the same time was attack what I call the trilogy of sin in Greece which is procurement, bureaucracy, the political system, the way that has such a cozy relationship with the oligarchy and the media that play a toxic role in Greek society and always have done.

At the same time we have reforms that then percolate down to the level of product markets, supermarkets. Then we can go down to pharmacies if we need to, but this preoccupation with pharmacies before we attack all the major sources of rent seeking in Greece would be quaint if it were not so tragic. These are things that I believe we can agree upon in one afternoon. The announcement of such an agreement will unleash such a wave of optimism about Greece.

Remember, asset prices in Greece now are on the floor. Suddenly, Greece will be a great field for bargain hunting. There's going to be such a relief amongst Greek investors, amongst foreign investors. And we have excellent human capital and various potentially growth industries that we can do the one thing we have no managed to do, and that is create an export-led developmental model that will be buoyed by this initial enthusiasm and which will be fueled immediately after that by a never ending sequence of great reforms. This is what we're struggling for. It will be such a great shame if this agreement is not concluded in the next few days, weeks. Thank you.

MR. WESSEL: We have time for a couple questions.

MR. DERVIŞ: Yeah. We have to leave the room at 4:00.

MR. WESSEL: Do you want to --

MR. DERVIŞ: Okay. Let's see. What I'll do, if it's okay with Yanis and David --

MR. WESSEL: A few together, yeah.

MR. DERVIŞ: I think a few together. Okay. The lady upfront here and please identify yourself.

QUESTIONER: Thank you very much. My name is Agles Aforawku. I am a Greek citizen and I would like to thank Mr. Varoufakis for the theoretical analysis. But I would like to ask a question and address this question to the policymaker because you a member of a government who started in January it's a (inaudible), as we know, of a populous right party and Syriza. And we know also from our families, from our friends in Greece that day after day Greeks are waiting in action from this government related to development. So I would like to ask you do you have any proposal, any developmental measure that this government took since January 2015? Thank you very much.

MR. DERVIŞ: We'll go for the gentleman there in the middle. Yeah.

QUESTIONER: Thanks very much. Matteo Matizma, assistance professor at Johns Hopkins site next door. I have actually a question for you as a politician. I think many of us actually agree with your economic analysis, and I think D.C. is probably your most favorable audience you're going to get. But as a politician are you worried that being right is not going to be enough?

Because the political economy is that the reality is you're one against 18 in the Euro Zone. How are the 18 other Euro Zone countries going to sell the concessions they're going to make to your government if they're going to meet you one-fifth of the way? Thank you.

MR. DERVIŞ: Third, the gentleman all the way to the back there, yes. You, right there.

QUESTIONER: I'm Basil Scarliss. I've been an observer of the Greek economy over the last 30 years, off and on. And I wanted to make a suggestion regarding ones that you might find sensible, dealing with the state owned enterprises.

And the suggestion is before you sell off the family jewels that you consider making them more productive by eliminating patroness jobs which have gone on for 30 years or longer, and specifically that you fire non-performing employees who have very high salaries, compared to the private sector in Greece, in contrast to many other countries. But they have extreme job security. Then on top of this, you give these jobs to the youth of Greece which have 60 percent unemployment. Then to attract foreign investment you consider eliminating the restrictions on mass dismissals.

MR. DERVIŞ: I think we take three and then, Yanis, you answer this and what, a few more?

MR. VAROUFAKIS: Yeah.

MR. DERVIŞ: Okay. Then you'll have the -- the lady at the back there next to the camera who still has her hand up. I'm trying to keep gender balance also.

QUESTIONER: Thank you so much. Elanie Joquas from Bloomberg TV Africa. We know that a lot of economists are betting on the fact that Greece is going to leave the Euro Zone. That's at least what we are hearing. What are you going to do to ensure that Greece doesn't leave the Euro Zone? Madame Lagarde, this morning, said that IMF rules state that you cannot have any delay in payments. We also heard from the German finance minister earlier that he'd give you advice to ensure that you stick to the reforms. How do you plan to ensure that you're not going to be compromised, but instead, ensure that you are going to compromise as much as you possible can without putting the Greek economy in danger? Thank you.

MR. DERVIŞ: Maybe one more. Yes, you. I want to -- I mean, subject to my IMF friends in the room there have been cases of arrangements, conditional on future performance. So, you know, it is not an undone thing that some payments are either refinanced or delayed.

QUESTIONER: Thank you very much. Alex Witter with the ICGS. My question is with your follow-up to what all the colleagues said before. And it goes to the essence of negotiations that are taking place. It seems to me and, you know, reading the papers and trying to talk to some of the actors involved that the piece that is missing is not so much the flexibility and trying to find a slightly different compromise on how to achieve the goals that you want to achieve, but the lack of specificity.

Basically how I understand it, your Euro Zone partners and the institutions involved are showing some kind of flexibility, but since there has been a breakdown in trust what they would like to see is not so much generic goals formulated, but more specific actions are taken or at least the beginning of actions taken that can, sort of, help to restore the trust that has been broken, probably over the past few years. Not due to your actions necessarily, but due to all the things that have happened since 2010. How do you respond to that criticism? Thank you.

MR. DERVIŞ: Yanis, I think you're turning, yeah.

MR. VAROUFAKIS: Policies. What are we suggesting? Actions. Well, I did allude to some before, but, of course, I didn't get a chance to -- you know, each one of these topics would take up the whole lecture. But the example I gave, consent privatization, okay? So our policy of developing public assets in conjunction with privateers where we have minimum investment standards in the Port of Karars, in the Port of Thessaloniki, when it comes to the railways, right? Now that is a very clear policy of saying that we are going to go into partnership with the private sector. We will allow them to manage it. We will even give them a majority shareholding, but they will have to ensure minimum investment, minimum labor standards, minimum environmental standards. That's a policy. That's not theory.

I don't have the time, but I could give you a lot of different examples on this. I could talk to you about our ideas regarding the tax system. So, for instance, we in Greece have the peculiar privilege of being a country with extremely high tax rates and extremely low tax takes. So how do we intend to tackle this problem? There are ways of doing it, and we are in the process -- but again, you have to realize that our sovereignty have really circumscribed by the negotiation.

In almost everything that we are introducing as ideas we're being told that it has to go through the filter of the negotiating process. That is slowing us down. We are much keener than it seems to legislate and to put these actions, these policies in practice.

On the question of -- I'll come to your question because it's related on the question of lack of specificity. Well, let me answer it directly. Our original suggestion to our partners was that we sit down and we specify three, four, five bills that need to be introduced, particular reforms. And indeed, we said to them to build trust this is the only way we know how to do it. Let's agree on three measures that need to be taken and you watch us take them, and you watch the implementation, and you pass judgment on us, depending on that.

We didn't get anywhere because we were told that the review has to comprehensive. Everything has to be discussed. My fear is that when you discuss everything you're not discussing about much. So let me share another source of frustration with you.

We entered into these negotiations, we constantly ask for, you know, narrowing down the focus, the specificity that you're referring to. We present proposals, you know, 10 pages, 20 pages, 100 pages of proposals, particular proposals which are not discussed because instead we have the comprehensive review which is effectively an avalanche of questions and questionnaires about this, that or the other, quantifying this. That's not the same thing as talking about specific policies, okay?

Then the international press becomes full of reports that we have no proposals. In a situation where if we reveal our proposals this is considered to be a unilateral action that is breeching faith. Please consider that.

On the question that you asked me, the standard question. What is it better to be right or to actually succeed? I don't know of any way in which I can argue something that I believe is wrong. Consider this to be my personal failure as a politician. In that case, I'm very happy for you to say that I'm not a good politician, but I'd rather tell you what I think should be done instead of using subterfuge.

You see, the previous five years are full of Greek politicians who signed on the dotted line and they played little strategic games and made commitments they never intended to uphold. It didn't work very well. Maybe the truth will work. Not that I have the monopoly of the truth, but I'm telling you what I truly believe in. So even though I train as a game theorist, this is not a game for me, personally speaking.

And let me also just -- because you also asked the question how will you convince the 18 that are standing in front of you? I don't believe that it is as simple as that. Appearances are deceptive. There is a great deal of common ground between us and the 18. There's something else happening here. This is a kind of equilibrium of consensus which doesn't -- is not founded on genuine unity of conviction that everybody is on the right track and our suggestions are wrong.

But as Adam Smith once said, when you address the baker, the brewer, and the butcher you do not speak to them of your needs. You address them on the basis of their interest. So we will always try to couch our arguments in terms of what's in the common interest of Europe because we genuinely believe that we're not in this for the Greeks. We're in this for maximizing the benefit of the average European. It's the only strategy I am willing to pursue.

MR. DERVIŞ: Okay. We'll --

MR. VAROUFAKIS: On the --

MR. DERVIŞ: Yeah, sorry.

MR. WESSEL: We're finishing, are we?

MR. DERVIŞ: Not yet, no, no. Go ahead.

MR. VAROUFAKIS: What was that? There was one more question?

MR. DERVIŞ: There was a question about state enterprises --

MR. VAROUFAKIS: Oh yeah. Mm-hmm.

MR. DERVIŞ: -- and jobs that are secure, highly paid, and effectively reproduce patronage, right?

QUESTIONER: And to hire younger --

MR. DERVIŞ: Yes, in their state.

QUESTIONER: Surplus money.

MR. VAROUFAKIS: This is, obviously, a fine ambition, and it's one that I share. Firstly, before I get to it, let me say that we have many fewer state enterprises than we did some years ago, since you've been an observer, okay? So privatization is not a process that's going to begin now. It's already happened to a very large extent. Very few state enterprises exist, right? Telecommunications, for instance, gone. The port authority, partly gone. We are in the process of considering, you know, there is a tender that is happening for the remaining of it.

We would be very happy to see the development of the railway system in conjunction with private partners and private -- you know, and management teams that come from outside. But you are quite right, and not so much for state enterprise, but for the whole of the Greek bureaucracy, of the Greek public sector.

Now, it is quite clear that what we need in order to do what you're saying, we need to affect the system of proper evaluation. Now under the previous governments under the TROIKA affected was a travesty. I know it from first-hand that in some of these occasions the people who were fired were the most productive and younger, and the ones that were kept were the better connected ones. We know this from universities, don't we? That systems of evaluation can be a double-edged sword.

What they do is they create not only a system of evaluation, but also a system of power. And sometimes when the wrong people use it in order to propagate their own power the result is precisely the opposite of that which you intended. So this is what we need to do and we need to do it very carefully. We're working on it.

And finally what would I do to stay in the eurozone? We are going to compromise, compromise, compromise without being compromised. That is what we're going to do.

MR. DERVIŞ: David, you chose the last two questions. Very quick the questions.

MR. WESSEL: I have one over there and then the gentleman here, over here. Stand up, Roberto.

MR. DERVIŞ: Very quickly please because of logistics.

QUESTIONER: I work in local government and we are looking at models that use collective impact where a rising tide can raise all boats, so it's compromise, but it's also using collective impact. So it's cross-sector collaboration between nonprofits, the private sector, and the public sector, and we're having good success with that here. I'm in Fairfax County Virginia, just outside of Washington D.C. So there's some interesting progress that's been made in looking at social impact bonds.

MR. WESSEL: Over here, Mr. Crawley.

QUESTIONER: Alberto Crawley, Cornerstone Macro. How confident are you that if there will be an agreement you will be able to reach an agreement with institutions? Can everyone hope that agreement will be approved by your Parliament?

MR. VAROUFAKIS: If we reach an agreement it will be approved by Parliament. Regarding your question, I am familiar with social impact bonds and they are a very good idea. But first we need to make this negotiation so we can get down to work.

MR. DERVIŞ: Okay. We do have to close. I'm very, very grateful to all of you. Please stay so that the Minister can be escorted outside first. That's the rule.

But many, many thanks to all of you. And, Yanis, many thanks. And I want to predict that there will be an agreement.

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