

EUROPEAN PARLIAMENT
SPECIAL COMMITTEE ON THE FINANCIAL, ECONOMIC AND
SOCIAL CRISIS

Brussels, 18 March 2010

**Resoconto del dibattito della 5° sessione della Commissione speciale
sulla crisi finanziaria, economica e sociale del Parlamento europeo su
"European Economic Governance and EU tools for recovery"**

T. Skylakakis: Good morning, Prime Minister. Welcome to the European Parliament. We'd like to thank you very much for coming here this morning.

Ever since the eurozone was set up and up to today there has been a huge competitiveness gap basically between Germany and a whole set of southern countries. Part of the solution could be increasing wages and consumption in Germany.

Another part of the solution could be structural changes in the countries that are lagging behind when it comes to competitiveness.

As far as you are concerned, in other words from the Greek side, what kind of reforms are you planning? What kind of measures are you planning to take in order to overhaul Greek competitiveness and to contribute to this aspect?

And then there is another issue relating to the Stability and Growth Pact. What do you think the future is for the Stability and Growth Pact? Do we want a more flexible SGP, or do we want an SGP that will be implemented more stringently? Thank you

A. Podimata: Thank you, Mr. President. Thank you, Chairman. I'd like to thank our political group and Mr. Koferati, and I would like to ask a question which mirrors the stance of my political group as a whole.

The socialists and democrats supported, from the very beginning of the crisis, the need for the EU to set up a support mechanism for those countries with huge deficit problems and those facing euro stability problems.

Mr. Rasmussen and Ms. Berès have written articles about this in the European press, but some other partners believe that what we are lacking is not a solidarity and support mechanism, but something which is even more about strict monitoring, surveillance and punishment, which could even lead to countries with a very high budget deficit being thrown out of the eurozone.

I would like to know, Prime Minister, whether you think that these widely divergent views mirror a completely different opinion on the future of the eurozone. Thank you.

O. Schmidt: Sorry, I thought I would speak a language that you speak very fluently, Prime Minister, Swedish in other words. And a very warm welcome to you here.

Now, you are somebody who deserves our support, and we admire you.

In Sweden we experienced a similar crisis in the 1990s, and we know what a massive amount of work, what a big task lies ahead of you. So all possible support in the work that lies ahead.

Now, obviously everything that happens in Greece has a knock-on effect on countries in the eurozone, and outside of the eurozone as well.

Now, I am a very warm advocate of the euro, and I really want Sweden to join the eurozone.

In my country Greece has been put forward as an argument not to join the eurozone. Other countries are now getting the idea that it would be wise or prudent to stay outside of the eurozone.

So that brings me to my question. Given the fact that Greece's problem might have a link to being in the eurozone, do you as Prime Minister wish that Greece had never joined the eurozone in the first place? Thank you.

George A. Papandreou: As far as the competitiveness of Greece is concerned, the issues that one hears about is that wages have gone up in the public sector, and this is put forward as a factor relating to the drop in competitiveness.

But I would like to talk about this from a different point of view. I think that Greece finds itself in a very specific situation, where we have a bloated and expensive public sector. There is a lot of bureaucracy, and behind this bureaucracy there are also corruption problems as well.

But this means that we have some room for manoeuvre. This means that we can make structural changes, and therefore reduce bureaucracy and make procedures simpler. For example, we are going to streamline our taxation system. We'll go for a streamlined administrative setup.

And before we had five levels of governance, but now we'll have three. We'll have central, regional and local government. So instead of five we'll have three. A lot of municipalities will be merged, so there will be less local authorities. Municipal companies will also be merging. A lot of central services as well. There are many central services that have no raison d'être, so we'll be merging these. We'll be focusing on transparency.

Let me give you the example of hospitals. In the health sector we have spiralling costs because of a lack of transparency in management and administration.

And then many health care professionals have issues with the pharmaceutical industries, and we are told that we could cut the cost of expenditure and have even better results with 30-50% here.

Let me give you the example of our debt in the hospital sector. It's EUR7 billion, and we'd be able to slash this by 50%, and hopefully we will achieve this with the austerity measures that we unveiled recently.

So competitiveness will play a very important role in overhauling the public sector. It will help us modernise the public sector.

Then we will have to develop new sectors or improve sectors such as tourism. Tourism is a dynamic sector, and we'll have to move towards green development with new technologies and education. We'll also have to help the setting up of new companies.

I'll continue in English. On the issue of the Maastricht Treaty and whether it is too strict or too flexible, I think what we are seeing here is the need to look at the different institutions that are lacking in this very important project which we call the eurozone and the euro.

First of all, I would say that last year, just after the crisis, there was basically a relaxation, and this was called a flexibility, around the Maastricht Treaty criteria. I had then come to – I was in opposition, of course – I had come to Jose Manuel Barroso and I had said I don't like the word flexibility.

Now, that may sound peculiar coming from a socialist. But what I said was: If we are going to have deficits higher than the Maastricht Treaty – and I have nothing against that, because that is what every country was doing around the world, every developed country was doing around the world, and even the developing countries, the emerging, strong countries, were saying we have to put money into our economy, and this will create some deficits, but it will stimulate our economy so we don't go into a great depression. And this was done in the US and this was done in Europe.

I said let us make it specific. Let us say we all, for example, have an increase of 3% or 4% or 2% or whatever. We all do it in a coordinated manner, and we all do it under the monitoring of the Commission, to see where we put that money. I said if you simply say flexibility, then this will give a signal to some countries, and that signal could mean that the deficit would spiral. And that's what happened in Greece.

So I would say we need more coordination. And even when we need flexibility because of this crisis, because we may have other crises, so we have to see how we can be strict, we could do this in a more organised way.

And obviously the idea of a support mechanism, whether it is called an EMF or something else, is important. I think what Ms. Berès and Poul Rasmussen have mentioned are important ideas. There are other ideas that have been on the table.

This has to be done in a way – obviously one can be punished within the Maastricht zone and Maastricht Treaty, because of bad conduct, if you like, and there are specific articles that define exactly what this kind of punishment is.

But the thing is that we need to make sure also that countries that have problems and are working to solve these problems are also supported, in a way that these programmes can be implemented and can be effective. Because simply punishing may not be the solution.

And in the end, punishment and kicking someone out is a failure not only of that country but it's a failure, in the end, of the European Union.

Finally, on the Swedish friend's question on the eurozone, for Greece the eurozone has been a very positive thing. First of all, it stabilised our currency because it became the euro. Secondly, it helped us grow. Greece did have huge growth in the first years of the euro. And thirdly, it has today also, I think, been important.

There is of course – and this is the problem that we are facing – a lack of a mechanism. If, for example, we were not in the eurozone, we have taken today measures that the IMF would have asked us to take. As a matter of fact, the IMF was with the ECB and the Commission in monitoring our country in the last few weeks, and they agreed with the measures we took. So in fact, we are under basically an IMF programme, whether it's called that or not.

However, we don't have, on the other hand, the facilities that the IMF could give, and that is the money, if necessary. And we are saying we don't need this money, but it is a loaded gun.

And secondly, of course, we have a restriction, which is other countries – I was in Hungary two days ago; Hungary is not in the eurozone. They of course floated their currency. And that is one way of correction, when you have this problem. So we have to have different types of measures.

So what we are saying here is we don't want to be in a situation where we have the worst of the IMF, if you like, and none of the advantages of the eurozone. So what we are saying is this is where Europe must come in and say OK, in this case we either can provide what an IMF would provide, even at an ad hoc level at this point, because we don't have the institutional capacity. Or in the end, Greece may have to choose to option to go to the IMF.

We hope that will not be necessary. Thank you.

P. Canfin: Good morning, Prime Minister. On behalf of the Greens groups, I would like to thank you for coming to speak to us.

Let me return to the Stability and Growth Pact and to the lessons that can be drawn from the Greek crisis and the general crisis that we are going through.

One of the problems of the euro area is that, since the euro was set up, the current account deficit in some countries has got worse, while surpluses on current in other member states, in other member countries, have increased. So there is a great tension within the euro.

Don't you think that one lesson from the crisis is that the Stability and Growth Pact should include a new criterion, which would be shared management and monitoring of current accounts, both in terms of deficit and in terms of surpluses.

N. Chountis: Thank you very much. I'd like to welcome you on behalf of the Confederal Group of the United Left. I'd like to welcome you to the European Parliament. Thank you for your speech, and thank you for choosing to attend a meeting or a hearing organised by this Special Committee on the Crisis.

I'd like to know whether there is a specific support plan that the EU is preparing to help Greece, because I think that up to now announcements have just made speculation worse. If there is such a plan, are we talking about conditions that are similar to conditions that the IMF would impose, if we were to go to them? I am talking about measures that are even more austere and harsh for workers than the ones that you have unveiled.

And if this were to be the case, Prime Minister, do you think that these measures would help us deal with the recession and the issue of employment? Are you going to be in favour of a different monetary policy that would be in favour of a lender of last resort approach? Thank you.

M. Borghezio: Thank you, Chairman. Don't you think that excessively draconian measures, as being proposed, run the risk not of saving us from difficulties but actually prolonging the economic agony of Greece, which we would all like to defend? Greece doesn't need a monetary policy controlling inflation and expenditure.

What instead it surely might need would be a brave devaluation, in order to bring in foreign investment and encourage tourism, for example.

Have you not considered a national currency for internal, domestic circulation, perhaps without leaving the euro, which anyway there is provision for in Article 50 of the Treaty?

Without a monetary devaluation or some kind of monetary protectionism and support for the real economy, there surely might be a negative future, whereas what we are looking for, for you, is something different from Argentina.

George A. Papandreou: Yes, on the issue of the current account deficit, I just would like to say that what we are trying to do is make our economy more competitive. Of course, there is a question of the European economy becoming more competitive, but there are also imbalances in the world, imbalances of currencies – some are considered too depreciated and need to be appreciated. There are imbalances in wages and in social benefits. These also create very deep problems for competitiveness and also for the necessary demand, possibly, that should be created for a greater development and greater growth potential of our planet.

But from our point of view, what we need to do, and we know we have this responsibility, is to make the necessary reforms to become more competitive.

Now, obviously Mr. Chountis has said these measures we have taken are not measures which will, by themselves, these immediate measures, if you like, by themselves, pull us out into a growth pattern. That is why the Maastricht Treaty rightly says “stability and growth,” and growth is the other side of the coin.

And this is where we need to promote investment. We will be investing. We do have from the Structural Funds, the Cohesion Funds, money which will be invested in the type of infrastructure and training to make us more competitive. And we also do believe that Greece has great potential, as I said, to become a green economy. We have, for example, the highest potential in Europe in wind energy, but we have really not used this potential or invested in this potential at all, over the last years.

So these are just some of the areas which I think we can develop.

Now, as I said, we are taking IMF measures. We have talked to the IMF. They would have asked us for nothing more. So if we go to the IMF, they will ask us for nothing more.

But I would prefer a European solution. I would prefer a European solution as part of the eurozone, as a European, as an ardent European myself, and being able to show the world that Europe can act together.

And as I say, this is not to be asking for money, but to have it on the table, or some form of an instrument on the table. And that alone, I believe, would be enough to make sure that the spreads, the speculators, would be warded off.

We need, however, to deal with this issue of speculation, both concerning Greece, but it's a wider issue, and that's why I say let's use Greece as a case at this moment for Europe, in order to deal with a deeper problem, but it's a problem that everyone is facing, or will face in the future.

Finally, on the devaluation and creating a national currency, first of all I think we are taking the necessary measures in order to put our economy in order and deal with the issues within the confines of the Maastricht Treaty. So I don't think we need to take any other measures, and it would be very complicated to get into a situation where you have a euro and a national currency. And that would be also, I think, creating a wrong sign as to the type of problems we have in Greece.

Yes, we do have problems. But we are not going to default. We are solving these problems, and we have great potential as an economy. And we have strong areas of development also.

So let us not create an image that we are at the edge of the abyss, as we have taken the necessary steps and we are moving forward now.

H.-P. Martin: Yes, I am very much in favour of the euro, and I am a warm advocate of the EU from Austria. But I hear a lot of criticism, and here what we have heard by way of the chief criticism is a lack of supervision, a lack of monitoring.

Now, allow me nevertheless just to ask you a critical question on this basis. What we have observed is that the debate about reparation payments in Germany has emerged again. Now, here I don't think you have said that this debate has been concluded. Do you think it has been concluded, or is this something that you are not talking about for tactical reasons?

Second question: Do you agree that against the backdrop of what you have just said it would make sense at the European level, for us in the European Parliament to set up a temporary committee of enquiry to try to learn the lessons of what happened in Greece, particularly because of the likelihood of other similar cases arising, for example possibly in Spain?

Thirdly, we have asked questions of the Commission and we have heard that there have been irregularities to the tune of over EUR1.3 billion in Greece. And OLAF wasn't even able to recover a third of these lost resources, so what do you intend to do about this?

O. Karas: Prime Minister, let me first of all say on behalf of the EPP that I think your presentation this morning was truly excellent. It was crystal clear and of the highest calibre.

Now, we can certainly reassure you that Greece is a part of this community, and we are aware of our duty in terms of showing European solidarity.

Now, we have to call a spade a spade. We have got three levels: Greece, Europe and global rules.

Having listened to what you said this morning, the message that I heard is that you are capable and you are willing to do your homework, and you think you can cope with that on your own.

The second lesson that I am learning from what you have said is that you have also learned your lesson about what is lacking at European level, when it comes to being able to help Greece so that you don't have to have recourse to global assistance.

And thirdly we need global rules.

So I'd like to ask you a question. What do you think you can't cope with or resolve alone in Greece, and where should we be acting in solidarity in the short term?

P. Beres: Prime Minister, I think you understood that the measures you have taken demand admiration, because of the courage that they represent.

Now, a crisis is an opportunity, of course, but it's also sometimes a cause of hasty advice that may turn out to be counterproductive in the long term.

You said that your country is guilty, is responsible for a lack of internal structural reform. Your country is guilty of its public finance situation. For so many years you have been skipping gaily over economic governance.

And Germany is guilty of not addressing this subject within the Stability and Growth Pact.

I share your approach, in the sense that I think we need to split the two questions. There is the Greek question, and the euro area needs to bring all support to your bold measures.

And then after that, we need to think carefully and calmly about the lessons from the last ten years, during which divergences between the economies within the euro have got worse. And that has now exploded in the Greek crisis.

So my question is: How do you think we should undertake that second task?

George A. Papandreou: Thank you very much. First of all, on the reparation payments, yes, this is still an open issue. We have at times discussed this with Germany.

However, I think it inopportune to bring it up at this moment, when we are talking about a different issue. And it would not only confuse the issue, but it would also, I think, give a signal that we are not ready to do what we need to do in our own country, to make the changes.

And I want to be very clear: We are not looking for scapegoats. We are not looking for reasons to avoid the painful measures.

We are taking the painful measures. These are difficult measures. These are the most difficult measures Greece has ever taken since World War II.

And therefore that is a signal that we are ready. And this is not my courage. This is the courage of the Greek people, that we are ready to make these changes in order to put our house in order.

Secondly, I want to say that, in looking at the investigation, well, we ourselves have a parliamentary investigation on this issue. There is an investigation now which is being conducted in the United States concerning the practices of banks vis-à-vis Greece, although those practices then were considered very credible, and Greece and other countries used practices which were not in any way hiding something but were considered as business as usual.

Now, of course we have seen that business as usual by the banks was not the best of practices, because it did bring the Wall Street crash.

But let me also say something which is sometimes misunderstood. Greece did get into the eurozone on its own, without any fudging. Even with the change of accounting of the military procurements – and let me just for one minute say something about this, because it's important.

There are two ways to make accounting of military procurements. One is to put it on your budget, when you make the payment, when you actually get the weapons. The other is when you make the order.

The normal way – and that is how we had done this – is when you get the actual weapons, not when you do the order, because you are not absolutely sure when the weapons will be ready, when the procurement will be ready. And of course that is when you pay out the money.

Now, that was changed by the previous government, so from paying when you get the weapons, the delivery, to when you ordered it. So it put back all the accounting and boosted up the deficit in a technical way.

What that meant is that Greece in 2000 came into the eurozone with a deficit of 3.1. That is even with the new accounting. So it was very, very close to the 3.3%, and other countries had come in at 3.3 or 3.5.

So I think there is a myth there that Greece had not done its homework even then.

Now, obviously when you have such a big military budget – and this is one of the problems Greece has, and we do want it to have a smaller military budget, and hopefully in this European peace project we will be able to move forward in our relations with Turkey, that of course will be a major, a major, help for the Greek budget.

I mean we are carrying a budget of 5% or 4% of GDP in military expenditure. What other country in the eurozone, or in Europe in fact, has such a budget problem?

So I think that is also something we have to keep in mind.

Now, on the issue of solidarity, thank you, Mr. Karas. You are right. We have done our homework. What we cannot do is we cannot alone fight the forces of the market, particularly if they speculate. This is where we need your help.

And the Greek case may be exceptional, but it is not the exception. It may be extreme, if you like, but it is a standard, unluckily, practice we are seeing around the world, that there is a lot of speculation.

So after the crisis we need to regulate these markets. And people who say we shouldn't have regulation – now, I'm not saying we should choke the markets. I am saying we should regulate the markets. It's more like saying, you know, you can say we don't like stop lights because they slow down cars. But they do help us for not having accidents.

So I think what we want is we want to have a regulation so we don't have accidents in speculation.

Finally, on making the crisis an opportunity, certainly in Greece this crisis is an opportunity for us also. It's a difficult, a painful crisis, but we are making it an opportunity for major changes, for a more just tax system, for a better, more competitive economy, for an economy which I think we can all be proud of, both we Greeks and Europeans.

And that is a will that exists in Greece. Even though these measures are painful, people are saying yes, we need to change. Anyone you talk to, they say we need to change.

So I see this as a great opportunity, even though it's a painful experience.

But on the second level, as far as the European Union is concerned, let's make this an opportunity together. I am glad to help with your committee, as I have been here today. I wish you the best of luck in finding the necessary solutions. I think that this committee can be crucial at this moment, this historical moment, for the European Union, in seeing the types of institutional changes, but also policies, in dealing with the financial and the social crisis, as you have mentioned, such as unemployment and growth, which we need to deal, all of us, and very immediately and very decisively. Thank you very much.