CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES (CSIS)

CSIS STATESMEN'S FORUM

SPEAKER:
THE HONORABLE GEORGE ALOGOSKOUFIS,
GREEK MINISTER OF FINANCE AND ECONOMY

MODERATOR:
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CSIS

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CAROLA MCGIFFERT: I'm Carola McGiffert, vice president and chief of staff here at CSIS. And today, we're delighted to welcome Minister Alogoskoufis from Greece. And is it not on?

Okay, sorry. For the sake of time, Ambassador Mallias thought it would be better if I went right into my introduction of the minister. But before I do, I should note that Minister Alogoskoufis' speech today continues a long tradition of cooperation between the Greek government and CSIS. I just learned in fact that we may have a Greek fellow here at CSIS in the next year or so. We have twice hosted Foreign Minister Bakoyannis. And much of our cooperation can be attributed to the ambassador. We thank you very much for this wonderful relationship.

Minister Alogoskoufis began his political career in 1992 as chairman of the council of economic advisors, drafting the first convergence program of the Greek economy, which was later approved by the European Commission. He was first elected to parliament in 1996 and became Greece's minister of economy and finance in 2004. As minister, he has initiated a series of structural reforms that have led to significant fiscal consolidation. Budget deficits have been contained, growth continued, and unemployment has decreased.

Minister Alogoskoufis has also had a very distinguished academic career. He's been a professor of academics at the Athens University of Economics and Business since 1990. He holds a master's and a Ph.D. in economics from the London School of Economics. And for his thesis, he received the prestigious Sayers Prize, awarded by the University of London for distinguished doctoral dissertations.

He has published books and papers on a range of economic issues, and serves as a consultant to a number of international institutions. He is really known in Europe and around the world as one of the leading thinkers on economics and finance. And we're delighted to have him here today. Thank you very much.

(Applause.)

GEORGE ALOGOSKOUFIS: Thank you very much, Carola. It's a great pleasure to be with you today and to be speaking to the CSIS. It is a time of global opportunities and challenges. And CSIS provides a very good forum to discuss issues that concern the world today.

I will concentrate today on four main themes. The first is what lessons can we derive in the light of the recent international financial turmoil and developments in the prices of commodities about global economic governance. The second theme is what we can say about Europe and how Europe has been responding to those challenges and to the challenge of reform. Then I will talk about Southeastern Europe, which is one of the most fast-growing and developing regions of Europe. And I think that Southeastern

Europe has the potential to become the next miracle in Europe in terms of growth and development. And I would say a few things about the Greek economy in this context.

In recent months, we have all been experiencing the effects of the slowdown of the world economy and the rising global inflation because of commodity price rises. The financial turmoil has proven deeper, wider, and longer-lasting than one could initially expect. As a result, global growth is cooling rapidly from the exceptionally strong growth of recent years to an expected 3.8 percent in 2008 and 3.6 percent in 2009. If one were to exclude the European Union, global growth is projected at 4.4 percent this year and 4.2 percent for 2009. And the world trade growth similarly is slowing down from about 7 percent in 2007 to 6 percent for the next two years, for this year and the next.

So looking ahead – and despite a very sizable fiscal and monetary stimulus – the U.S. economy seems to be set for sluggish growth at least for the current year. And Europe seems to be slowing down. However, this is far from a recession scenario. It is a slowdown scenario. What is more worrying, however, and what affects living standards all over the world is the fact that inflation has gone up and has been revised by more than 1 percentage point this year, due to soaring food and energy prices.

So the economic situation and outlook is unusually uncertain at the current juncture. And of course, this poses some questions about global governance, and especially global economic governance, because the challenges that the world is facing today do not only exceed the capabilities of a single country or even a big country like the U.S. or a big constellation of countries like the European Union. Many of our problems seem to require international coordination. Many of our problems seem to require a common global strategy. And certainly, we need to strengthen global economic governance and the institutions around global economic governance.

I feel very, very strongly that we have to look at the new system of global governance for all the big countries and all the supranational formations who would like to participate. The European Union, the United States of America, Japan, but also emerging economies like Russia, China, India, and Brazil. The system of international organizations that was established in the wake of World War II has reached its limits.

This is quite obvious now in a number of areas. And it needs to be reformed in a way that will allow us to deal effectively with global challenges, both economic and environmental and social, because it's not just a question of the slowdown of economic growth. But we also have problems relating to the global environment, and we also have problems relating to global social problems like poverty.

With a notable exception of the World Trade Organization, when we speak about global economic governance today, we have to admit that the progress made over the last few decades is insufficient. A new system of global governance has to be put in place that will possess at least four characteristics.

First of all, a better representation of those countries and those regions of the world that are not represented adequately today. And I already talked about China and India and Brazil. Accountability – the system has to be – should be able to be held accountable for its actions to the global community. So we have to have continuous monitoring of what we're doing at the global level. It appears that the institutions that we have like the G7 and the IMF and the World Bank do not seem able to provide what we need. Of course, they are in the process of reform. But we have to speed up this reform.

Efficiency is a very important consideration. We have to be more efficient in implementing the agenda required for global economic governance. And we need to have sufficient supervisory powers in order to ensure that the decisions that are being made will be respected by all parties in the global community and no free-riding will occur. So we need a system of checks and balances of the decisions that are being made.

So I think that this is probably one of the most urgent needs for the global economic system. And I will just mention three areas where global economic governance will help. One is, of course, dealing with shocks to the world economy, and with the various imbalances that have emerged in the global economy the last few years. The recent financial turmoil that has its roots to the unraveling of the sub-prime loan crisis or the international macroeconomic imbalances that have emerged between various regions of the world, whether this is managed exchanged rates or big fiscal deficits in some areas of the world, these are things that have to be tackled at the global level. So we are in urgent need for an international framework of rules, regulations, supervision, and transparency to deal with those macroeconomic issues.

The second area where this is very, very important is the protection of our environment. The accelerated pace of climate change is sufficient proof that we must establish a well-defined set of solutions that cannot be partial. They cannot relate just to one part of the world; they have to relate to the whole world. So we need urgently a system – consensual system – that will operate at the international level, but also at the national and local level that will involve all the major actors and all the major countries that can help, whose decisions affect the global environment. I don't know whether we are advanced enough to talk about a global environmental organization. But certainly, we must look at better coordination.

And the third challenge, of course, is how to deal with poverty at the world level. And from what we know, global macroeconomic imbalances in several practices that were intended to protect, among other things, the environment, ended up exacerbating the problem as they seemed to be responsible for higher food prices. And higher food prices seemed to be affecting the developing world and the poorer countries of this world and the poor strata of our societies much more than what we anticipated.

So despite the fact that I will be the last to lay down the difficulties that exist, there are many difficulties in reforming global economic governance. I think it is high time that we seriously think again about reforming our institutions. And I think that this is also – it is very important that we live now in a world, which is no longer divided into

two camps of free-market economies on the one hand and centrally-planned economies on the other hand. We see now throughout the world a better consensus around mixed economies. Democracy seems to have been spreading around the world as well, which is also very, very important. And so, this will help in trying to build a consensus at the global level.

Let me turn now a little bit to what we are doing in Europe around these issues because the European Union is a very good example of cooperation among countries that have decided to give up a portion of their national sovereignty on issues that are common. They have also kept a very significant area of policy for national policies. The European Union has established procedures that have allowed its enlargement. As you know, it has enlarged in recent years. And it has allowed relatively efficient political and economic cooperation between its members. And it can serve as a useful example as to what can happen at the global level, of course, in a much more limited sphere of interventions.

The European Union has achieved a certain degree of efficient governance together with democratic procedures, because democracy is at the heart of the European experiment. And these procedures safeguard the interests of its members. And they help achieve ownership on behalf of their citizens. Although there is many – in many instances, we hear that the European citizens do not own up to European policies, et cetera, in general, I feel that there is sufficient ownership of the European agenda at the grassroots level.

And despite the fact that there is a wide range of common policies, each country in the European Union pursues an economic and social model that its citizens consider more suitable. And in general, the literature has looked at four different types of European models. There is no single European model. I mean, it is very, very clear and we should be clear that there is no single European model. There are at least four, if not five.

There is the Nordic socioeconomic model, which is based on the notion of a very widespread welfare state with a very high level of taxation at the same time, because you cannot have a very big welfare state without high taxation. The flipside of the Nordic model is high taxation. But this model seems to be working quite well in the Nordic countries. And nobody in the Nordic countries seem to want to change it. And the European Union does not put any pressure on Nordic countries to change their model.

Then, there is the more prevalent continental model, which is followed by countries such as France and Germany and most countries in the continent, which provides for lesser social assistance and less intervention at the welfare-state level and more moderate taxation. And in countries such as in the continent, the role of the market and the provision of social assistance is limited. Employment protection is high. But social spending is not as high as in the Nordic countries. So we have a different model in the continent.

There is the Anglo-Saxon model, followed by the United Kingdom and Ireland, which is based on very limited collective provision of social protection, more flexible labor markets, lower taxation. And there is the social welfare system in the Mediterranean countries – Greece, Italy, Spain, Portugal – where the welfare state is not very prevalent. Traditional institutions like the extended family system play a big role. The public administration is not as efficient as in the continental countries and the Nordic countries. And again, there seems to be very little pressure on the Mediterranean countries to change their social and economic model. It can survive and it has survived for many, many years alongside the other models.

So we have a system in Europe, which allows for individual differences, and at the same time pursues some common policies. And of course, I said there are four and maybe five. The fifth system that we have now in Europe is the system of the new members of the European Union, the previously planned, centrally-planned economies that have now become free-market economies or mixed economies. And they seem to be tilting more towards the Anglo-Saxon type of model with low taxation, low social protection. But at the same time, they do not have the deep and mature institutions that we have in the United Kingdom and Ireland that will allow this type of model to operate, so this is still an experiment that is going on in the new members of the European Union.

At the same time, of course, I'm talking about the differences but there are some common features. The different European social models have a set of common features. All models involve government interventions to reduce poverty and social exclusion, to achieve a more fair distribution of income, to provide social insurance, and to promote equality of opportunity. So there are differences but there are also some common goals in Europe. And the basic pillars of those models are pensions, the health system, long-term care, social protection for the poor and the disabled, and the redistributive function of taxation. So in different ways, the different models achieve those goals in a fashion that is compatible with preferences in the individual countries.

Now, this convergence towards a set of common features does not mean that any of the above models need to prevail. In Europe, we do not feel like copying each other's model for social protection in the same way that we do not feel we can copy the U.S. model, which is more efficient in some ways but allows for bigger social inequalities on the other. Every country seems to have its own preferences. And in terms of global governance, which was my initial theme, this convergence in Europe shows that we could at least agree on some basic principles regarding the challenges that we face. And despite the differences in socioeconomic models, we can pursue a number of common policies.

In Europe, for example, we have a number of common policies, despite the differences that we have. We have the single currency. We have the stability and growth pact, which is a common set of rules on macroeconomic policy. We have the single market, of course, a very big experiment that seems to be working for many, many years now. We have the Lisbon agenda reform to make the European economy more competitive. So we have those common polices. At the same time, we have our own national policies and our own national social models.

Let me turn now to Southeastern Europe and its prospects, because Southeastern Europe, as I said, is the newest part of Europe and one of the fastest-growing and one of the areas in Europe that provides for very big opportunities, both for investment and growth and in years to come. It is my first belief – it is my firm belief that Southeastern Europe, as I said initially, can be an economic miracle in Europe in the same way that Ireland was an economic miracle in the last 15 years, so to speak.

Of course, when we speak about Southeastern Europe, we are referring to a region, which is very, very big. It is a region, which is very, very big. It is a region with approximately 140 million inhabitants. It is a region that consists of at least 11 countries. And I will mention them in alphabetical order. It is Albania, Bosnia-Herzegovina, Bulgaria, Croatia, the former Yugoslav republic of Macedonia, Greece, Kosovo, Montenegro, Romania, Serbia, and Turkey. And of them, Greece, Romania, Croatia, and Romania – and Bulgaria, sorry – are members of the European Union.

Greece, of course, is the oldest member. We have been a member of the European Union for 28 years already. Also, Greece is the most developed economy. I will mention some figures. But it is important to note that in this region, with the exception of Greece and Turkey, the other countries were centrally-planned economies until the early ’90s, so all these economies have transition economies. And the transition seems to be working. All those countries now today enjoy a higher standard of living. They have access to more opportunities. Trade has increased in the region and internationally. And we are in the process of very high economic growth.

For example, I will mention some data about all the countries. Albania has a population of 3.2 million inhabitants. In 2006, GDP per capita was approximately equal to $3,600. But the growth rate in Albania was almost 6 percent per annum during the last five years, so it’s a very fast-growing economy. Bosnia, the same: a population of 4.6 million inhabitants; per-capita GDP slightly lower than Albania: $3,300; an average growth during the last five years around 4.5 percent. Bulgaria, which joined the European Union in 2007 has a bigger population, almost 8 million: 7.7 million; a GDP per capita close to $5,000; and its annual growth rate 6 percent over the last five years. So we have similar growth rates and similar standards of living in most of those countries.

Croatia has a bigger – is more developed than the others. It has a GDP per capita of around $2,000; a population around 4.5 million; average growth again roughly 5 percent – in fact, 4.7 percent in the last five years. One of the smallest economies, the former Yugoslav Republic of Macedonia, population of 2 million; GDP per capita $3,800; an average growth rate of slightly in excess of 4 percent: 4.3 percent in the last five years.

In Greece, which is one of the biggest economies in the region, we have a population of 11 million people; GDP per capita in 2007 was $32,300, almost by a factor of 10 higher than the GDP per capita of our neighbors. And yet, we have experienced the

growth of 4 percent during the last five years, which is a very respectable growth rate for a mature economy, because Greece is a relatively mature economy compared to all the other economies in the region.

Just to make the comparisons, in Greece, GDP per capita is $32,300. In the U.S., GDP per capita is $46,000. So the difference is not as big as the difference between Greece and its neighbors. Kosovo has a GDP per capita of $1,600; Montenegro $3,800; Romania, slightly higher than the average, double the average in the region, $7,000 GDP per capita; Serbia $4,500; and Turkey has a GDP per capita than all the other countries, all the transition economies in the region, $6,700 and an average growth rate of 7 percent. Turkey is probably the biggest economy in the region because of its very high, very large population: population of 75 million people. Half of the population in the region is Turkish.

So we see that we have a region with a majority of economies are transition economies. They are growing very, very fast. They are experiencing significant economic growth. And they are reforming their economies as well. All of the economies of the region have aspirations to become members of the European Union. Some have already become members of the European Union. And some will become in the future.

So I think we have the makings of a very good economic performance in the region. And in addition to the domestic efforts of all the countries, the considerable funds of the European Union are contributing to improving the infrastructure in the region of all the countries – members and non-members alike. Both Bulgaria, Romania, and Croatia are expected to substantially improve their infrastructure now that they are – especially Bulgaria and Romania – members of the European Union. And this will positively affect the economic integration in the region.

And of course, investment is pouring into the region. With all those opportunities, we expect a lot of investment. And despite the current unfavorable climate in the global economy, we should expect the countries of Southeastern Europe to continue attracting substantial foreign investment and post strong rates of growth. And a good reason is that the region as a whole enjoys a significant strategic position. And it's a key transit corridor for both trade and also energy. The region is becoming also an energy hub with pipelines for natural gas and for oil crisscrossing the region.

So of course, a lot more needs to be done to improve the investment climate, to foster trust between businesses and national authorities because many of the countries do not have mature social and legal institutions, to increase the mobility of investment, to further open the region's economies to the world, to improve infrastructure, to encourage small businesses, to address problems like tax evasion, crime. There are problems that one should not deemphasize. But certainly, the challenges are there and the region is improving.

And in all this, for us in Greece, we see all this as a major opportunity, because Greece, of course, has developed much faster than the other economies. We have been

lucky enough to have a mixed economy for more than half a century after the last war. We are a member of the European Union for 28 years. But for many years, Greece was isolated in this part of the world, like an island in the Southeastern Europe with very little trade with its neighbors for sociopolitical reasons and geopolitical reasons. Turkey we have had this long period of animosity. With our northern neighbors in the Balkans, we had different socioeconomic systems for many, many years. Now, all this is a new opportunity. And Greece has played and continues to play a very important role to encourage the development of neighbors and their European future.

We have substantially helped our neighbors in the difficult years of the transition. Greece has hosted more than 1.5 million immigrants from neighboring countries, and has thus helped avoid the unraveling of a major humanitarian crisis. Of course, this has also helped the Greek economy. The migrants have helped the Greek economy. We have supported the establishment of democratic processes and institutions in our neighboring countries. We have wholeheartedly supported the application of Bulgaria and Romania to join the European Union. We have been supportive of the goal of Turkey and other members in the region to become members of the EU.

And the Greek private sector has contributed economic growth of the region. Approximately 4,000 Greek enterprises have invested more than $20 billion in Southeastern Europe and are contributing to its remarkable economic and social progress. Greek banks, in particular, operate more than 3,000 branches in the region. They have become the bankers of the region in many ways. And thus, they have been helping transform the banking system of our neighbors and the transfer of valuable know-how and creating thousands, tens of thousands of jobs.

And as I said, the Greek economy has benefited from all this as well. We have not been doing it just for the fun of it. We feel it's good for the region and it's good for Greece. And that Greece has reformed itself; we have been members of the European Union. We have initiated a number of reforms in the last few years. We are one of the few countries in the region to have the single currency, the euro, which has helped a lot in the transformation of our economy. We have brought down government deficits and debts from unsustainable levels a few years ago. Unemployment is gradually falling. And we feel that with domestic reforms, European reforms, and reforms in the region, Greece can contribute a lot with the further progress of this strategically. Thank you very much.

(Applause.)

MS. MCGIFFERT: Thank you very much, Minister. Before we take a few questions from the audience, I did just a brief search this morning on news coming out of Greece and there were a number of stories related to the personal debt. And I'm wondering if you could talk a little bit about how you're looking at issues related to savings and debt.

MR. ALOGOSKOUFIS: Yes, one of the developments that came out of Greece's adoption of the single currency and low interest rates was that the private sector that started almost from zero debt started borrowing in order to finance mainly housing but also consumer durables. And the last few years, we have seen personal debt going up. Of course, this is collateralized. That is, it has on its other side housing and other assets. And the Greek household sectors is still a net saver, because its assets far exceed its debt. So we have seen a development who is essentially in a transition to an era of more financial stability and lower interest rates.

And household debt is still at least a third below the comparable levels of debt in the European Union. So it's not something that is particularly worrying. It's something that has been a recent phenomenon. And because of the financial turmoil and the increasing spreads now in interest rates, there are more concerns, of course. And we have to look at the situation more carefully. But I don't see anything, which is particularly worrying in this particular development.

MS. MCGIFFERT: The minister has time for a handful of questions. The microphone will come to you. If you could please identify yourself, we'll start back here in the corner.

Q: Thank you. Julia Panuliaklanis (ph) – I appreciate the most informative presentation. I would like you to focus, if you may, on climate change, the raging need for adaptation and mitigation measures. To what extent do you think they might affect the prospects of growth: national, regional, and globally? Thank you.

MR. ALOGOSKOUFIS: Well, let me start with a global challenge. There is no doubt that if we were to take the problem of climate change more seriously than we are taking it at the moment – we need to make economic adjustments – that at least in the short term will affect some industries and therefore global growth, especially the polluting industries. The fact that we have set up markets now for pollutants and trading schemes for pollution and greenhouse emissions and all that is certainly increasing the costs in a number of sectors that emit pollutants.

On the other hand, I think that in the medium term, there will be an industry for environmentally clean technologies that will help economic growth. So if we were to look at a serious effort to deal with climate change, I don't think this effort will necessarily have harmful effects on economic growth at the global level, because there may be some short-term effects on particular industries that may affect growth but a cleaner way to go about creating wealth and an environmentally more friendly way to go about creating wealth and growth can emerge as a result.

The main problem that we have is the problem of coordination. It is the problem of free-riding. As long as we do not have a binding system that forces everybody to abide by the same rules, there will be incentives to free-ride. And it is these incentives that are more worrying than the effects on economic growth.

Q: John Panos (sp), Greek Americans – that's where the accent comes from. It's a pleasure to have the minister of economics of Greece speak to us. And it's a special pleasure based on your performance to have you. I have about 100,000 questions. I will ask you only one. You came in; you won the last elections; you continue in government with a very, very tough slate of affairs, in economics in particular. Can you give me – without going into any specifics – can you give me a summary based on social security, political airlines – (inaudible) – thank you.

MR. ALOGOSKOUFIS: Well, we have been following since 2004. And let me also say that previous governments have also been following a reform agenda. But since 2004, we have been following a very clear reform agenda, essentially to give more room to the private sector in terms of production, employment, and growth, and involvement in economic activity. Without at the same time reducing the role of the state in areas such as social protection, the fight of poverty, and other areas like health and education where we feel that the public sector needs to be present and active.

And this seems to have worked; it worked especially after the Olympics where we had to reduce public expenditure by a very large amount in order to ensure that there would be room for the private sector, but also in order to reduce the budget deficit. We had to reduce a very high budget deficit as was mentioned initially. The budget deficit after 2004 was 7.3 percent of GDP, whereas the headline figure for European Union countries and for Euro-zone countries is 3 percent of GDP.

So we reduced the budget deficit, made room for the private sector with a number of reforms, public-private partnerships, a new investment incentives law. The reduction of taxation was a major plank of our policy. We reduced corporate taxes from 35 percent in 2004 to 25 percent now, which was a big reduction. And privatization was also an important consideration for us. We have almost fully privatized the banking system. Now, we are moving into the privatization of areas, which are covered by previous monopolies, such as OTE. We have recently forged a strategic partnership with Deutsche Telecom for the future of OTE to avoid OTE becoming a problem firm in years to come because of the opening up of the telecoms market, and to give it opportunities to continue contributing to the economy.

And as you know, we have also recently reformed the social security system, despite a lot of opposition from unions and a number of other affected parties. But in obvious effort, I would not adopt the word we have been following, you know, tough policies. We have been following necessary policies and we have been following policies, as much as possible, that are compatible with the wishes of society in the sense that we – you know, if you go too far, you may leave society behind. If you stay behind, society will be leaving you.

So we tried to be there at the same wavelength as society, and of course there will be some portions of society that react to reform because Greece, despite the fact that Greeks have always been traders and taking risks, as a society is a very conservative society. It does not like change, like any other society; change is always, you know, an

adaptation and it's difficult. But we feel that the fact that, despite the choices that we have made, people have rewarded us in the last election. It gives us strength to continue in the path of reform because we feel that this is a path which is good for Greece in the immediate term.

Q: Thank you. Nikos Stophos (ph), PFC Energy. I wanted to ask you about two pieces of microeconomic adjustment, the euro and whether you see that posing a threat to the Greek economy, and the large current account deficit of Greece.

MR. ALOGOSKOUFIS: Yeah, these are really important questions. First, on the euro, I think that the euro has been an unmitigated benefit for Greece. It has been great for the economy because Greece, for a number of years, especially after '75, after the first oil crisis and the collapse of the Bretton Woods system, Greece had a very weak currency. The drachma was a weak currency since '75, since it stopped being part of the Bretton Woods system of fixed exchange rates, essentially. It was devalued very, very often; it was continuously losing value. The monetary policy of Greece was contributing to inflation, inflation was very high; interest rates were very high. So the fact that we have adopted the euro has given us financial stability, low interest rates, and was very important – a very important contributor to the economic growth that we have had since 2004. So this is the one aspect.

And in Greece domestically, because of some problems having to do with how the euro was introduced, there was an attribution to the euro of high prices because essentially, some small-ticket items went up in price with the introduction of the euro. For example, something that used to cost 100 drachmas after the introduction of the euro started costing one euro, but one euro was 340 drachmas. So that was a big increase. But that was for a relatively small number of small-ticket items. It was not a major contributor to inflation, I don't think. But still, the perception still prevails today that the euro is responsible for high prices.

The second, of course, is the kind of account deficit which has been the focus of a number of articles now, also in the international press. The high current account deficit of Greece is something that we have to look at very carefully because Greece, together with Spain, with Italy, with Portugal, has a very high current account deficit. Also, some of our neighbors in some of the southeastern European economies have very current account deficits.

There are two ways to look at this; one is loss of competitiveness. There is no doubt that since the introduction of the euro Greece has had higher inflation than its euro-area partners, and this has led to a small deterioration of competitiveness. I don't think that the loss of competitiveness is the major driving factor of the high current account deficit. I think that the major factor is investment. The fact that Greece is attracting a lot of investment, therefore has a surplus in its capital account because very significant investments have matured – this exists in Greece, and a lot of capitalists being attracted to Greece either because of the shipping boom or because portfolio investors have been

investing in Greece in the last two years, or because direct investment has been coming into Greece.

So when you have a capital account surplus, the flipside of this is the current account deficit. So as long as the current account deficit is being financed through autonomous investment flows, I don't think there will be any need to worry about the current account deficit. The problem is what will happen when and if there is a slowdown in investment in-flows. Then, we have to be prepared for an adjustment. But I think, to the extent that I can foresee, our challenge and our task should be to maintain a very good investment climate, and this will maintain a very healthy in-flow of investment into Greece and the region because Greece is also attracting a lot of investment because of the role that it plays in the region in general, in southeastern Europe.

Q: Andreas Threonopolos (ph), a Woodrow Wilson fellow working on Russian energy diplomacy, an at-times colleague and at-times political opponent of Mr. Alogoskoufis. (Chuckles.)

I'd like to ask a very simple bipartisan question: A couple of months ago, the Greek government reformed the social security system. Is that reform final, or in a couple of years we'll hear again for the need to reform social security?

MR. ALOGOSKOUFIS: I don't know who said it, but the only certain thing in life is death and taxes. (Laughter.)

Q: Alden Nabb (ph) at U.S. Federal Trade Commission. Could you –

MS. MCGIFFERT: I'm sorry, could you identify yourself?

Q: Yes, I just – Alden Nabb at U.S. Federal Trade Commission. Could you comment, please, sir, on the role of competition policy, particularly now that there's been a certain amount of privatization, since it's often been the case that cartel activity has risen post-privatization in many countries.

MR. ALOGOSKOUFIS: Yes, again this is a very, very important concern and a very important question. Essentially, what we have had since privatization and liberalization, especially in a number of network industries which used to be monopolies in the past, is the need to ensure that competition prevails rather than oligopolistic practices. And in Europe, at least, what we have done is we have substituted the role of previous public monopolies, public monopoly firms, with a role of independence commissions and independent competition commissions. We have an independent, for example, telecoms commission in all the European Union countries; we have an independent energy commission.

And one should look now at how these commissions are operating. In some ways and in some sectors, they have operated quite efficiently, and in some countries. In other countries, we still have teething problems. Essentially, the commissions have not

realized their full potential and they have not used the powers they have in order to ensure that competition is adequate.

And if I can say something about Greece, I feel that in Greece we still have a long way to go. We still need our independent competition commissions to operate more effectively, to enforce the rules more strictly, and to ensure that oligopolistic practices do not keep prevailing, as they have had in the last two years.

MS. MCGIFFERT: We'll take two more questions: Sir, and then the gentleman in the back; you first, yes.

Q: Can you say something about the sources of energy for Greece, both the foreign sources and whether there is very much in the way of hydroelectric potential or solar and wind?

MR. ALOGOSKOUFIS: Well, in terms of our energy needs, for many, many years, Greece was relying on brown coal for its energy needs, which is a source of energy which is cheap, on the one hand, and also environmentally very damaging and very unfriendly. And in any case, we cannot keep relying on this source of energy because our stocks of brown coal are being depleted quite rapidly. So in the last few years, we have been trying to diversify: Natural gas, wind, solar energy, hydroelectric.

Again, diversification has worked to a certain extent and will continue to be pursued because it's a very, very important consideration. However, I don't think that we can fully diversify out of brown coal through only natural gas and environmentally friendly sources of energy. There may be a need to look at coal, which of course faces a lot of opposition despite the fact that it is less environmentally damaging that brown coal. And we may have to look at alternative sources, but in the medium term our strategies to rely on natural gas and environmental wind technology, hydroelectric and solar energy.

Q: (Off mike) – why has the issue, the case, of the Olympic Airways been so recalcitrant in the case of privatization, dating back to the previous government or two governments? After today, is it lack of political will; is it the strength of syndicates? Is it lack of support from the political sector?

And second, a similar question: What is the status of introducing private universities to the Greek environment?

MR. ALOGOSKOUFIS: Yeah, on Olympic Airways, I think it's a case of having delayed the necessary solutions for too long. There was initially a lot of opposition to privatization of Olympic Airways, and when the airline market was liberalized Olympic Airways got into a mess because it could not keep its monopoly profits in a period of – in a regime of competition. Then, there were European rules that did not allow for state aid to firms, to state firms, in competitive sectors.

And now, the main reason in the last five or six years, and the main obstacle to the privatization of Olympic Airways is exactly these European rules against state aid. We have to find a solution with the European Commission as to what is the situation with state aid to Olympic Airways in the previous years, come to a total sum that is relevant and involved, and then we can move with privatization. So now, the opposition is not so much the opposition of vested interests against privatization, but is this major uncertainty about what Olympic Airways owes to the state as compensation for previous state aid, and this has to be settled with the European Commission.

On – what was the second question? On private universities, yes. There was an initiative by the government to change Article XVI in the constitution which essentially, for many legal experts, does not allow the establishment of private universities in Greece, even by charities. And although some factions of the main opposition party, including its current leader, were in favor of reforming this article, during the constitutional process they changed their minds. So now, we do not have the necessary agreement between the two major political parties and as far as I can see, this article will remain in place at least until the next constitutional agreement.

Until then, the only thing that we can look at is whether, under the current constitution, there is some legal leeway to create private universities in the sense of allowing charities and wealthy individuals to contribute to the creation of universities.

MS. MCGIFFERT: The last question to the gentleman in the back.

Q: Yes, I enjoyed – my name is Roderick Woodson. I'm an attorney and partner with Holland & Knight law firm. I'm interested in remarks from you regarding the evolution of the legal system in the southeastern part of Europe. I was noted that you made a distinction between those countries which are currently part of the EU and those which are not. And in those areas which are not, how would you assess the evolution of the legal system, particularly as it seeks to – that area seeks to draw further investment?

MR. ALOGOSKOUFIS: Well, I think the main driver of the legal system, as well as other institutional characteristics of those economies, is their effort to become part of the European Union because part of this effort is to change the legal system to ensure the protection of property rights, to ensure, you know, proper justice system, the enforcement of contracts; all those things that are very, very important for investment.

And I think that the main driver for reforming this particular area, as well as in other areas, to be honest, is the drive of all the countries to become members of the European Union. Bulgaria and Romania had to make major efforts to change their legal systems and tackle problems that they had before they entered into the European Union, and they are still under pressure to change some aspects of the system that are not deemed satisfactory, as well as other countries. Now, it's the turn of the Western Balkans and Turkey, and their accession programs – one of the areas where they have to reform is the legal system.

MS. MCGIFFERT: Minister, let me thank you and Ambassador Mallias for joining us today and for giving us a glimpse of the exciting developments that are happening in Greece, and how Greece is really a model for the region and perhaps beyond. So we're very grateful for you for being here today.

Thank you. Please join me.

(Applause.)

(END)