Address by the Prime Minister of Greece
To the Suddeutsche Zeitung

Ladies and Gentlemen, dear friends,
May I first of all sincerely thank the Suddeutsche Zeitung for giving me the floor today to address this prestigious audience.

The topic I chose to talk about, basically talk about one word: reforms!

But it is more than a word. It is – I believe- the center of our political universe. Most of our political history, across national borders and continents, has been about reforms or the lack of reforms.

As a matter of fact, reforms have been dominating historical events since antiquity.

Come to think about it, Solon’s reforms created the social basis for ancient Athenian Democracy. Nounas in ancient Rome and Lycourgos in ancient Sparta, near from where I come from, led the foundations for powerful city-state societies which lasted for many centuries. The Gracchi brothers tried but failed to reform the Roman Republic in the first Century BC, leading to successive civil wars. Three generations later, Octavius and Tiberius succeeded in transforming the failing Roman Republic to the Roman Empire, which lasted for many centuries to come.

So even if we regress back in antiquity, it is reforms that changed little villages to glorious city states, powerful kingdoms, republics and empires.

But it goes the other way around as well: glorious super-powers who failed to reform fell apart to ashes of their previous glory.

Reforms have been the turning points of our History as we know it. Most probably they will determine our future as they have dominated our past.

And reforms in Politics are so pivotal and in political discourse; yet reforms are very misused, they are very abused, they are very misrepresented and misinterpreted many times.

--Marxists are very suspicious against reforms; they consider them usually as the “bad substitute for revolution”.

--Ultra Conservatives are very suspicious against reforms as well; they consider them usually as a destabilizing force for the “sacrosanct” status quo.

--On the other hand, liberal or conservative democrats are usually pro-reforms; but they seldom agree on what to reform, how to start and in what order reforms should proceed.

In any case the truth is that, if a society fails to reform, it will not survive in the long run. But if it pushes reforms too fast, it won’t be able to sustain them either.

Timing, therefore, is very important also. The wrong timing can prove self-defeating.

The problem is that there is no clear-cut recipe for successful reforms.

But through human history we know that there are some fundamental rules that any successful reform movement should observe, should respect:

* Rule number one: a reform strategy is a step by step process; it proceeds in successive phases. You can fix an automobile at once, you can make all mechanical repairs in one shot, but you cannot do this with a whole society. A reform program has many details and many technicalities but it is NOT – it is not a technical project, neither is it a mechanical procedure. It is political all the way…
Because it deals with people, human beings, their lives, their thoughts, their aspirations.

* Rule number two: if reforms are “political” in all historical contexts, in our modern world it is even more so, because we are operating in democratic societies. Reforms can only happen with the overall support of the people, not against their will. They must have a democratic legitimacy. Otherwise, they will be undermined or they will be stopped.

* Therefore - and this is rule number three - in each step of the way, reforms must generate their own popular support: the social alliance, the social dynamics that will move them to the next phase. And this is the only way to avoid reform fatigue.

You don’t climb on the mountain top vertically. You ascent from one plateau to the other, you catch your breath, you let your people appreciate your achievements, then you set the next target and you proceed to the next plateau.

* Rule number four: You have to be both bold and cautious. When implementing reforms you are crashing against all kinds of special interests, with entrenched interest groups that are standing only to lose. Of course, whatever you do will benefit the society as a whole. But the problem is that the enemies of reforms always react immediately to stop them. While the general public will understand that those reforms are to its benefit, only with some delay, only with some time lag.

In other words, the enemies of reforms will fight you from day one, whereas the general public will come at your support only later on.

Put it in another way, when you are implementing reforms, you have to communicate you message right away. You have to tell the truth to the people: The truth about what the problems are and how you intend to fix them; the truth about the hardships that lay ahead; the truth about your targets both in the short and the long run. But having said that, you must always give the people some time to digest it and adjust themselves to the reform path.

The reform strategy requires a reform message based on three words: Sincerity, Trust and Hope. But to build trust and to generate hope, you’ve got to maintain social cohesion, live by your word, correct all possible mistakes in the process and prove that you care.

So, let me come to the experience of reforms my own country, in Greece.

In the last three and a half years we have gone through some very difficult steps.

--We have made the largest fiscal adjustment ever, more than 12% of our GDP!

--In the process we lost more than 25% of our GDP! And if you are to add to this inflation and taxes most probably the average Greeks disposable income has fallen by something like 40%.

--We went through a recession that lasted for 6 consecutive years – it’s a post-war European record.

--We cut overall official debt amounting to 68% of our current GDP, as Dr. Schäuble very well knows, which is another world record; and of course, with the help and with the support of our partners.

But believe me we went much further than fiscal adjustment. We have also eliminated our competitiveness gap which was created since 2001; and we did it even by painfully curtailing our Unit Labor Cost by something like more than 20%!

We have already covered more than three quarter of our competitiveness gap. So today a number of indicators show that our competitiveness is indeed gaining
ground: May I tell you indicator, the fact that we are on the top of the OECD’s “Going for Growth” List of countries applying reforms. Let me give you an example in the particular category of establishing starting new businesses, our world ranking in the OECD report was improved by 111 positions, rankings, in just one year.

But most importantly, our trade account is almost balanced now, for the first time in decades in Greece, starting with a deficit of about 7% just four years ago!

So we did not correct only fiscal problems; we also – and I think this is more important - corrected structural imbalances in our economy.

Let me just to mention a few striking examples:

--A new investment law, cutting the licensing process to a couple of months - instead of years - and allowing for automatic licensing if state bureaucracy procrastinates. If you apply to the State, the State does not answer, you get a license on your own immediately, after a next amount of time. And this cuts – believe me - miles of red tape. And this is the whole concept, this is the whole new school of thought we are trying to follow. Provide, for instance, the investor in Greece, instead of a red tape treatment with the red carpet treatment, which is very important.

--We open up closed professions in almost all sectors, stretching from taxis and track-drivers to cruise-ship crews, lawyers and solicitors.

-- We have an on-going tax reform simplifying tax evaluation and tax correction (collection), eliminating tax fraud and tax evasion, providing strong incentives for tax compliance, and strong disincentives for continued fraud. As a matter of fact only in the last 9 months, 2800 individuals have been arrested, went to jail, for all kinds of tax wrongdoings. Tolerance of any kind of any “big shots” in Greece is over for good.

In a nutshell, the Greek economy was full of red tape, full of distortions, burdened with unbelievable bureaucracy and all kinds of disincentives for investment and growth.

We are cleaning up this mess now, and we have already gone further than anybody thought possible just a few years ago.

You remember that until very recently, many considered Greece to be “a lost case”. Now, more and more are talking about a spectacular comeback. The world markets are probably the most outspoken. The rate differential, as Dr. Schäuble talked about, the famous spreads of the Greek 10 year bonds, were close to 3000 basis points 18 months ago! Now they are about 630 points, less than in May 2010 when Greece entered the Program. Nobody expected such a rebound so soon.

Sometimes, including us, to be honest…

We have now concluded successfully the first phase of our reform program. We have produced what everybody thought to be correctly, I believe, from all schools of economic thought the most important criteria for a successful disengagement from the crisis. And this criteria is the primary surplus. We have produced a primary surplus for the first time in many years. And we did it ahead, as you said, of our Program! We are on the first big plateau on our way to the top of the mountain.

But make no mistake:

We have still a long way to go. We have still many things to change. We are not putting on the automatic pilot.
I am saying this to you, as I am telling exactly the same thing to the Greek people: There is much more to be done...

But now we can see some light at the end of the tunnel. Why?

Because according to most auditors, recession is over and recovery is about to begin, projected to be about 0.6% - small number, but very very important and symbolic number - for 2014. Might be a weak recovery, indeed, but it is still a recovery after six long, painful, very painful years of a very deep recession.

Unemployment, already at a record of 27.3%, for the general population and 60% for the youth under 25 years of age, has stopped rising. This is also expected to subside soon, although a more spectacular reduction will still take a couple of years.

What’s probably most important: According to everybody - the OECD, the Commission and the IMF - the cyclically corrected primary surplus of Greece, cyclically corrected primary surplus, is now the largest in the Eurozone! And the structural budget surplus of Greece is also the largest, while the rest of the Eurozone is still facing, on average, a primary deficit. Structural budget.

In other words, if Greece were to reach its current potential output, this is what the structural budget shows, if we could reach our potential output, we would be able to pay for all our fiscal expenses and our debt service, leaving a surplus to reduce the debt. So what we obviously now need is to speed up recovery and reach our growth potential.

Dear friends,

Nobody can question this track-record of achievements.

And nobody should dilute this message of hope about the future.

As we speak now, we are preparing to get to the next big phase of reforms, including 70%, hopefully even more, of the whole famous “toolkit of the OECD reform list” extending from eliminating totally barriers of entry for new companies, to getting rid of pricing distortions, from eliminating special privileges to wiping out totally bureaucratic obstacles that exist.

We are still working on the “big reform items”. We have already started working on details as well. You see, more often than not, in a serious reform strategy “the devil lies in the detail”.

We are also scheduling our budget for 2014 with the target of 1.5% of GDP primary surplus as stated in our Medium Term Program. On 2012 we were slightly above our fiscal target. On 2013 - everybody agrees now - we will be comfortably above our target. On 2014 we hope to continue this record of overshooting the target.

This is a message of hope for Greece, no question about it.

Whatever we did has been accomplished by the very extended sacrifices and also by the maturity of the Greek people. And has also been achieved by the support of our European partners.

So it is a message, not only from Greece to the rest of Europe, but also from Europe as a whole, to the rest of the world.

It is more than just a message; it is clear evidence that Europe works, that Europe can solve its problems, that reforms are mostly encouraged and mostly supported within Europe.

--A year ago, many people, within and outside Europe, were betting that Greece won’t make it, that Greece will be forced to quit the euro. They have lost their betting.

--A year ago, some were betting that the eurozone will not make it; even that the European Union will unravel. They have lost their betting as well.
We are proving them wrong! We have proved that the most sweeping reforms can happen in Europe, can succeed within the context of the eurozone and within the context of democratic rule of law.

It is true, that the Greek people have suffered a lot and are still suffering. It is true, that populism and extremism have gained some ground.

But democratic institutions are very strong in Europe. And they will sustain a reform path that will prove more and more hopeful rather than painful.

This is my message of Hope to you: Europe can face the reform challenges of our time.

This is our message of Hope to the rest of the world: we can go through painful reforms while keeping hope alive and democracy strong.

We can overcome the enemies of reforms.

We can overcome the enemies of democracy, populism, extremism.

We can meet the challenges of European Integration.

This is not the 30’s! This is not the Weimar republic.

This is the 21st Century.

This is a new United Europe. **The Europe we all want to see united and stronger even, in the future.**

Thank you very much.