

Greece: The Way Forward
Friday 14 October 2011

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Schedule and Session Description

Dear all,

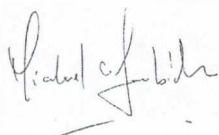
Many thanks for your participation in this event. We appreciate how tight schedules are in this tumultuous and potentially economically disastrous period; but also note that the Greek issue requires to be dealt with not only through a more edified discussion but also through more effective action. The event's agenda has been sharpened with this in mind: Our objective is not only to debate and seek a common view, but also to come to a *concrete set of policy suggestions* through the White Paper, which will be authored by the academics in the group who do not have a potential perceived conflict of interest.

This crisis has the potential of being more significant and more devastating than the Lehman Brothers collapse if it is not handled effectively. To date the response leaves much to be desired. The implications of the Greek crisis for the whole of the euro zone and beyond are preoccupying, and the weaknesses of the monetary union make it all the harder to find a good way forward for Greece. But we cannot undertake a comprehensive analysis of the European issues in such a short meeting. We will focus on Greece, and even there, we will start with theses that for the majority of the participants likely to be received wisdom. We will briefly consider these starting assumptions, to make sure that they are sensible and note any reservations. We shall then focus our attention on a small number of specific issues and open questions that the collective expertise of those in the room can respond to.

Note that this will not be an occasion for formal presentations. We are fully aware that the majority of the invitees could well have been invited to give keynote addresses, as they would in other events; but the focus here is to leverage complementary individual and collective expertise. We will be having further individual discussions to facilitate this, but our starting principle is that the best way of organizing the sessions would be to have them be interactive and practice-based. Opinions voiced should reflect personal rather than institutional views. This is a closed-door, no-press event. We seek a frank exchange and the articulation of specific solutions and viewpoints in a time of extreme volatility, indeed confusion.

Some of our starting principles are (by design) provocative and sharp. We would welcome not only the opportunity to debate the, but also to obtain a set of actionable conclusions as well as recommendations, which will inform the White Paper. It's an ambitious goal, and one we hope you'll help us collectively achieve.

On behalf of the organizers (Richard Portes, Dimitris Vayanos & Elias Papaioannou),



Michael G. Jacobides
Sir Donald Gordon Chair of Entrepreneurship & Innovation
London Business School

Format & Schedule:

Friday, October 14, 2011 – LT5. Event strictly by invitation

- 15.30 Registration and coffee
- 16.00 - 17.00 **The elephant in the room: Managing the Greek haircut**
- 17.00 – 17.45 **“Financial sector, privatizations and corporate governance”**
- 17.45 – 18.00 Coffee break
- 18.00 – 19.45 **Restructuring: From words to action (nation building, applied)**
- 19.45 – 20.15 Drinks Reception
- 20.15 – 21.45 **Working dinner: Maximizing our impact and plans ahead**

Saturday, October 15, 2011 (Restricted attendance –academics)

- 9.15 – 12.45 **Working group for White Paper:** Finalizing recommendations, organizing the write-up
- 12.45- 13.45 **Working Lunch**

Session description – questions we will ask (and ask you to consider now)

Session 1. The elephant in the room: Managing the Greek Haircut

It has become abundantly evident to the near-totality of those who study the situation that the Greek debt is simply unsustainable. Rather than opening up the debate on what to do, this session *will assume that* a major restructuring with a substantial haircut will be needed in the near future. While adverse implications on the banking sector, in Greece and in the EU, are undeniable, it might be worth noting that the current policy is essentially a transfer from European (mostly) taxpayers through the EU and the IMF to those holding Greek debt, including hedge funds having bought Greek debt at substantial discounts. This session will *briefly* debate the proposition of whether a haircut is called for immediately; and then will move further to consider the implications of this haircut, and focus on how we can engineer it so as to minimize any adverse side-effects.

The questions we would want to consider in this session include the following:

- What are the main costs of a haircut for the EU and the ECB, and what are they for Greece?
- How should a debt restructuring process be organized efficiently, to best serve both European and Greek interests? What side-effects do we need to most guard against? And, to deal with them, what steps need to be taken and when?
- Should Greece stay within the Euro after a restructuring?

Jeromin Zettelmeyer will provide a brief summary of the topics to frame our discussion; Prof. Richard Portes will proactively manage the conversation where all will partake.

Session 2. “Financial sector, privatizations and corporate governance”

Another important issue which will need to be considered as we look at the restructuring issues is the Greek banking system, which will inevitably require support from public funds. Given the experience of governments running banks, and the troubled record of Greek governments running corporate vehicles, we propose considering creative ways in which we can provide capital to banks without making them liable to pressures from the Greek political system. This must be considered against mounting distrust of ordinary Greeks against any non-Greek intervention, itself the result of skewed discussion in the media. So we will have to identify the best solutions to help banks through the difficulties brought about both by potential write-downs of public debt and by the increase in NPLs associated with a growing recession.

A related topic concerns privatizations. Issues of titles and ownership have been documented as bottlenecks of the privatization process; and there is substantial concern with the extent and amount of privatization proposed. Privatizations are not only a potential source of revenue, but also an opportunity to restructure and rationalize a good part of the Greek economy, enhancing productivity. The corporate governance issues this raises are substantial. Finally, finding ways to lengthen the process of privatization (either to prepare companies and organize ownership claims, or to avoid depressed valuations in a troubled period) will be considered – including recent proposals discussed in the press.

The discussion will be managed by Sir Andrew Likierman, after a brief framing by Prof Dimitri Vayanos.

Questions to be considered include:

- How should banks be recapitalized? Is it possible to raise private funds? Are public funds and EFSF the only way?
- How to ensure good corporate governance of those banks that are recapitalized using public funds? Who should be running these banks in the interim period until they can be sold off to the private sector? Will there be entry by foreign banks? Is such entry essential? Why hasn't it happened successfully in the past?
- What should be the main directions of reform for Greece's financial system?
- What should be the scope of Greece's privatization programme? What asset size and over what horizon? Is it mainly firms? Land? Infrastructure?
- Will there be significant participation by foreigners? Is this desirable? essential? Will participation by foreigners be over a limited horizon?
- What are the necessary governance changes in the firms to be privatized? Is there a concern that the corresponding industries might be monopolized? Can monopolization be averted by divestments or by regulation?
- Is there a way to create a mechanism that provides additional time for the privatization authority so as not to have to dispose that many assets that quickly, or are suggestions along the lines of Roland Berger doomed?

Session 3. Restructuring: From words to action (nation building, applied)

It is not by accident that we have allocated the longest time slot to what we think is the most important session- which is on implementation. Anyone with a connection to Greece will confess that the situation on the ground is even more problematic than the situation on paper. Reforms are being implemented very slowly or not at all. One important example has been the remarkable inability to fix any of the problems of tax evasion for the last two years (continuing a sad record of previous governments), which in a time of sharp contraction is accentuating Greeks' sense of injustice. This is at least partly due to the inability of the apparatus of the tax collection system to operate effectively. The same can be said of numerous other parts of the Greek government. The response so far has been to focus on reductions in all variable costs (mainly, salaries) in fixed proportions and emphasizing tax collections from whatever sources appear to be easier to track, in order to meet the numbers. And while this has sent the country into a dangerous recession (and has further strengthened anomie), it has not addressed the underlying structural issues. Both Greece's creditors (and the troika in particular) and the Greek government must shift their attention away from macroeconomic figures to indicators of structural transformation, which could also satisfy an elementary feeling of justice and of accountability of the state.

To help resolve this dangerous conundrum we propose focusing the last part of our discussion on *specific structural solutions and their implementation*. We will collectively work on *how exactly the necessary changes can be catalyzed*. In particular, we will consider the following questions:

- Why are changes happening so slowly? And, more to the point, what are the bottlenecks blocking structural change, and what measures could tackle them? Is the main bottleneck the lack of administrative competence? Is it that reforms are blocked by powerful interest groups? How can such problems be dealt with?
- How can we increase transparency and accountability and force changes to happen not at the discretion of politicians and policy makers but at a quicker pace, with the results of the transformation process being visible to all Greeks and international stakeholders?
- The stance taken so far, ie not to challenge Greece's authority to manage its own affairs (and as such stay clear of operational involvement) has not paid off. Which way can we strengthen the *actual* change (contrasted with what is announced), while managing popular or political anger due to perceived loss of sovereignty?
- Should we consider "nuclear" options such as selective outsourcing or the creation of new entities dealing with the bottlenecks in terms of public sector receipts?
- Should there be an organization, over and above the advisory group of the EU? What specific, politically feasible mandate might it have?
- How can we build institutional capacity for change, and what lessons can we draw from efforts of transforming either countries (or political systems) or turning around organizations?

Prof Costas Meghir will provide a 4 minute framing on structural changes; Prof M.G. Jacobides will manage the conversation, drawing on the participants experience of structural change – and of the key bottlenecks in Greece

Working dinner: Maximizing our impact and plans ahead

After a needed break for drinks, we will move in the realm of implementation. We will consider what is the best way to advance the ideas (and hopefully areas of relative convergence) from this meeting. We will ask participants to suggest ways in which we can make the resulting White Paper more effective; and see how it can affect decision-makers (in terms of the troika and the EU, the ECB and key players such as Germany); how it can be leveraged in Greece, both for policy-makers and politicians, but also to inform (perhaps in a simplified way) the public debate. We will also briefly considering how we can use the intellectual and political capital of Greeks abroad (like many in this room), or the friends of Greece so as to turn goodwill and concern about one's country into something concrete.

Background: Reading for those interested

In terms of informing our discussion, we will have some background material available to all. For most of the participants, this is of course familiar territory (for some, their own work). This can be found, starting 8/10, through the website: <http://faculty.london.edu/mjacobides/greekdebtevent.htm>

The readings include the a comprehensive paper by Buchheilt and Gulati on the potential endgames on Greek debt; a deck of slides, sent to us courtesy of Dr. Rodrigo Olivares-Caminal, with interesting (if compressed) data in terms of the legal and restructuring background; a recent Citibank note about the Euro and its prospects, which is one of several such notes; the executive summary that McKinsey & Co's Athens office recently did, on the behest of the Hellenic Bank Association and the Confederation of Greek Industries, on "ways forward" for the Greek economy; the link to IMF's most recent report; a copy of the Eureka project, put forth by Roland Berger (attached also links to Alphaville's comments). On the website, we will allow participants to also post their own references, so as to make this as interactive as possible!. To facilitate this, please email anything you would want posted, and any potential comments, to MGJ's PA, Beth Wallace, at bwallace@london.edu so she can upload it for you.