TIBOR PURGER: OK. Good afternoon everybody. Welcome faculty, students, staff, and friends of this university. Welcome to the Rutgers University Libraries. My name is Tibor Purger. I am Director of Information Systems for the library network. Europe has not been in the news as much as lately, so we have a very exciting topic this afternoon. My only task here is to introduce those who will introduce and then converse with our guests. The hosts of this event are, as venue hosts, the Rutgers University Libraries, and then the Institute for Hungarian Studies and the Center for European Studies from SAS. And our hosts will be. Professor Paul Hanebrink from Director of the Institute for Hungarian studies. And then Professor Dan Keleman, Director of the Center for European Studies. I would like to ask Paul to introduce our guest. PAUL HANEBRINK: Thank you Tibor. I know I speak for Dan Keleman also when I say that this event quite literally would not have come together without your efforts and so, both of us are very grateful for everything that you've done. I can think of no one better to talk to us today about the politics of the current eurozone crisis than our distinguished guest, Mr. Gordon Bajnai, former Prime Minister of the Republic of Hungary. His distinguished career in both the private and public sectors gives him a unique perspective on the complex mix of challenges facing policymakers in the Eurozone. His career began in the private sector. From 1995 to 2000 he was Managing Director and then Deputy CEO of the Creditanstalk Bank in Hungary, a market leader in investment banking services, at a crucial period in Hungary's post-socialist age of privatization. From 2000 to 2005 he served as CEO of Wallis Ltd., a leading Hungarian private investment group. His achievements in these years most certainly did not go unnoticed. In 1999 the Central European Business Review named him one of its 30 most promising business executives. In 2003 the National Association of Managers voted him Young Manager of the Year. In 2006 he was awarded the Officers Cross Order of Merit of the Republic of Hungary for quote, "An
acknowledgement for his exceptional professional achievements in the area of corporate
management culture development." In 2006 Gordon Bajnai entered the public sector as
government Commissioner for National Development at the National Development Agency
followed soon thereafter with ministerial positions as Minister of Local Government and
Regional Development from 2007 to 2008 and Minister of Economy and National Development
from 2008 to 2009. During this period, his numerous responsibilities included managing and
overseeing the investment of EU structural and cohesion funds and guiding Hungary's approach
to the EU economic development plan known as the Lisbon Strategy. As many in this room well
know, Gordon Bajnai accepted a one-year mandate in April 2009, to lead the Hungarian
government as Prime Minister without party affiliation; a time of extreme political financial and
economic crisis. During his time in office and despite great political division, his government
embarked on a series of painful but necessary structural reforms supported by both the
European Union and the IMF aimed at stabilizing the country financially and creating the
potential for long-term economic growth. Since the end of his mandate in May 2010, Mr. Bajnai
has lectured at universities in North America and Europe, speaking, teaching and writing about
European Union-related issues. He also serves as the founder of the Hauzaish Holladash (sp) or
Homeland and Progress Foundation in Budapest, a non-partisan public policy research
organization designed to promote serious discussion about the political, economic and financial
challenges facing Hungary today and to craft realistic and viable policy proposals to meet those
challenges. This tremendous breadth of experience gives him sharp insight into the past,
present and future of the European Union and the Eurozone. So please join me in welcoming
Mr. Gordon Bajnai to Rutgers University for a conversation on the politics of the Eurozone
crisis. GORDON BAJNAI: Good afternoon ladies and gentlemen. Thank you very much for this
invitation. Thank you for the hosts and the first sentence, as a Hungarian.
it is probably always a very special moment for a Hungarian to come to New Brunswick because this is one of the two locations in the United States where the highest concentrations of Hungarian emigrants, now Hungarian-Americans, can be found. So New Brunswick, from Hungary, is one of the largest cities of the United States.

And if not the largest, probably one of the greatest. Now that much about Hungary for now and let's talk a bit in the wider context about the European Union and its crisis. First of all, I think whenever a crisis hits a family, an individual, a company, or a country, the first thing to do to get out of that crisis is to look into the mirror and ask why on earth did I get into this crisis. What did I do wrong? Because every crisis is a message. And this crisis why, we call it a global, financial and economic crisis, despite it is global, it has delivered a tailor-made, precise message to each and every country and region in the world: the United States, some of the emerging countries and some of the European countries including Hungary. But it has delivered a tailor-made message to the European Union as a whole. What went wrong? And I think if I could say - - if I try I will try to summarize in one sentence what went wrong -- that Europe's crisis is the crisis of a half-finished integration. A half-finished integration which was all the way down during the last 60 years. Half-hearted. Half-considered. Half-explained and therefore half-finished. And this integration is already too strong to turn back but, it is not strong enough to avert a crisis where we stand today. That also means that, in my mind ladies and gentlemen, [aside] why don't you take a seat? So. This crisis, in my mind, has been there substantially before the 2008 collapse of Lehman Brothers. That collapse in the financial system has just made it obvious that something is wrong with Europe. I think Europe, to a degree similarly to the United States, has been beaten back by globalization. I think Europe. Is now fundamentally
in crisis because globalization took her revenge on those who started that because what globalization meant for these countries is that -- for these regions -- that a significant amount, I would say millions, of low-skilled jobs were lost in Europe in favor of countries with cheaper labor cost. European countries and politicians tried to maintain the growth and maintain jobs for those people and that has pushed these countries similar to the United States into a bubble of non-tradable-goods- sectors-based growth with an increasing welfare and increasing labor costs. But as soon as this bubble --which was financed with cheap credit -- burst, it was obvious that those cheap labor, low-skilled jobs will not come back to the continent. So, that was started before Europe lost its competitiveness in the 90s and early 2000s and this was just highlighted by the crisis.

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Now what is the environment that we need to deal with this crisis? First of all, we are now dealing with the crisis that is originating from our crisis management. If you look ahead, what are those five key trends that will decide for European politicians and leaders the way forward, then the environment doesn't look very good.

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The first factor is, the first key trend is that the growth globally and especially in the in developed countries will be much lower in the coming 10 years than it was in the previous 10 or 20 years. That is due to the fact of less credit available. That is due to jobs lost and probably, as a result of the globalization process, the long-term average trend level of unemployment will be much higher in developed countries than it was before the crisis. That will mean less demand globally and therefore as a consequence of all of these factors we have to prepare for a much
slower growth rate in our economies than they were there before the crisis. This has serious consequences. The second major trend is partly a consequence of this. That is -- and this is the biggest danger of all -- reverse social mobility. There was one historian who said, "Revolutions are not made by those who are poor, but by those who get disappointed." Now what happened during the last 20, 30, 40 years in the world is hundreds of millions of people got out of poverty and became lower middle-class.

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This was done with the help of cheap loans and new jobs. The crisis has turned both of them back.

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And it is not expected that in the developed part of the world very quickly we could generate some substantial amount of new jobs. Now if those millions in every country will have to return from a lower middle-class status back to a poor status that can destabilize our societies as it did in the 1930s with very tragic consequences. That is the biggest risk to our societies. The third aspect of this crisis that it did not change the way the world is running. Many questioned at the beginning that it is -- many stated at the beginning of this crisis -- that this is the crisis of capitalism. I wouldn't think so. I think it's just a crisis in capitalism.
But what it certainly meant that many of the trends that were there before got accelerated. We have hope that we have time to address issues of aging societies in the next 20, 30 years.

Now in Europe we are looking ahead probably a 10-year horizon within which we have to make fundamental changes to our pension system, to our immigration system, to our labor system in order to -- and education system -- in order to do something and get those demographic trends that are pulling Europe down. Today two-and-a-half active people pay for one retired [sic] person in Europe. In 30 years’ time, there will be only one-and-a-half active [sic] person paying for one retired person in Europe. That is not the problem of the United States. That is not similar to here, but it is a serious problem in Europe. And immigration, which could be a natural tool to deal with this, is also quite negative.

Of total migrants in the world. Eighty-five percent of the unskilled migrants come to Europe whereas 55 percent of the skilled labor comes to migrate to the United States. So, Europe is on the losing trend in this respect as well. The first factor that we have to be very careful about looking at historic experiences [is] that crisis always brings out protectionism -- protectionist instincts -- from people and peoples.
But protectionism is only the anteroom to nationalism. And aggressive forms of nationalism can lead to extremism which can push our societies into the verge of another serious crisis like in the 1930s.

That should be avoided. And that is one of the biggest. Political risks of this crisis. Isolationism is also another factor. If you look at the countries around the world, including the US, but also many countries in Europe, they are looking inwards. Thomas Mann, the famous German writer, wrote once that a man of sickness reduces to a body. That is true for nations as well. If a country a nation is sick, they start to focus on their internal organs and they give up their higher spirit, which is often needed.

Fifth, there is a trend which didn't start now but again got significantly accelerated and that is true for the United States as well as Europe which is the process of global rebalancing.

The crisis means that the time before the emerging economies, most notably China, but also India and others will emerge and become largest economies in the world, has come much further, much more further, much more closer to us than we saw before. That means we have much less time to react and rebalance or balance this process. And also, there is one very
important argument if you look back in history thousands of years, it has never happened that economic strengths and political, diplomatic and military strength could decouple from each other for a long time. So, if the economic, relative economic strength of the current leading regions of the world will diminish, their global influence will also significantly diminish. They will not run the show. We have to prepare for this. We have to make it as smooth as possible and we have to keep as strong a position as possible to protect what we have achieved throughout history. These are the major five trends among which Europe has to find its way.

But today it is very fashionable to bury Europe. I came here not to bury, but to praise it. Praise it in a cautious way. I think those who bury Europe often forget that Europe is still the world's single largest market with 500 million customers, out of which there are 100 million, over 100 million households with annual income over and above thirty-five thousand dollars. Only in the US there are only 80 million households with over seventy-five thousand dollars, so Europe is the largest consumer market in the world. It's the largest foreign direct investor, the largest exporter and importer almost in every relation.

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It's the greenest economy in the world and in comparison, to the US, there are one frightening and one very positive statistic from the European point of view.

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The frightening one [is] that Europeans have a great lifestyle compared to the US. It is often said that Europeans live to work whereas in the US people work to live. But the numbers show that Europeans on average work five weeks less per annum than an average, active employee in the United States. That is not only the famous holidays in Europe, but maternity allowances,
early retirement schemes, sickness leaves and everything together. Still, that means over 10 years you accumulate one year's less production than your competitor. Another aspect however is that Europeans live three more years in good health than people on average in the United States. And out of 100,000 people in the US, five people get killed as a result of homicide. In Europe, 0.9. So, there is a significant difference in these aspects of quality of life. But I'd like to go back to the economy and the Euro crisis.

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I think the Euro crisis by now has become a political crisis and before the political problem is solved, the financial problem cannot be solved. Why is it a political crisis? Europe has been in the process of integration for 60 years. Which is an unprecedented, political phenomenon. I think Jacques Delors called it an "unidentified political object" where countries were pooling voluntarily their national sovereignty in an increasing way for a greater common good. But, now we are at a critical point. Europe's decision making has always been based on the smallest common denominator principle; that is what you experience when you say it's slow and there are a lot of debates, but it also means that most of these decisions are always suboptimal or incomplete. On which the 27 countries can agree, they run ahead. On issues which are politically more difficult, they leave behind. But this means that the solutions they find are technically very often suboptimal. This is what happened to the Eurozone. They have created a monetary union without a fiscal union. It was easy to see why a common currency would be good for growing the economy and growing the companies, but it was difficult to make the big jump for a fiscal union. And it's understandable why, because if you think of what is a fiscal union? What is fiscal policy? Fiscal policy is how much we take from our citizens and how much we give to others. That is the very heart of politics. That's what politics is about. That's why the budget vote every year is the most important vote in every Parliament. And giving that up at
the national level and giving the major authority over to a European center would practically
mean a jump into a sort of new political union. That would be a major shift to this continent
and that's why a lot of hesitation is there. However, the founding fathers of the European
Union, Jean Monnet and others, as time went by knew that this incremental method of
development is there of European integration. They always knew that their solutions will never
be perfect and they leave behind unresolved problems. So, they were clever enough to create
every major decision in a way that it works like a hook. You can always push it inside but you
can never pull it out. There is no way out of the Eurozone. There is no exit clause in the
Eurozone contract, so there is no organized way for somebody to leave the Eurozone. There
was never, until the Lisbon Treaty was approved, there was no defined exit mechanism from
the European Union either, so it is very difficult to walk away from this table and not just
because the treaty doesn't have a paragraph for that.

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But the losses suffered by those who leave -- for example -- the Eurozone would be incalculable.
European politicians in the last couple of years forgot to explain to their people what it would
mean if the Eurozone wouldn't exist. But two weeks ago, three weeks ago, some economists
have published a calculation what it would mean if countries leave the Eurozone.

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And they calculated that if Greece departs from the Eurozone alone, Greece would take a hit in
up to 40 to 50 percent of its GDP in the first year. But they also made that an even more
frightening calculation for those who are sitting on the other side of the table. If Germany
leaves the Eurozone it would take a 20 to 25 percent hit on its GDP in the first year after
departure. That would be practically civil war. Wars don't take so much out of GDP then this estimate shows. If you consider that the first point of this financial crisis was somewhere between five and 10 percent loss of GDP, depending on which country, then 20 to 25 percent is an unimaginable loss. So, all the interest is there to save the Eurozone.

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But how can you do it? First of all, you need to solve the political task. There are

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three more questions to ask from citizens. One: has there anybody been without guilt when the Eurozone was set up and the way it was managed? No. Everybody was guilty in having this incomplete solution; having Greece in on faulty statistics, having other countries in who didn't even fake their statistics, but it was obvious they shouldn't be there. And even in 2003, the two leading nations of Europe -- Germany and France -- were themselves loosening-up or watering-down the so-called Maastricht criteria; the fundamental criteria for the Eurozone membership. So, everybody is at fault. So, everybody should pay their dues when the crisis hits.

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The second question: can you expect the citizens of Germany to sign another blank check for Europe?
They have been doing it for plenty of years. I don't know how many of you follow soccer, European soccer, but there was a great striker, English striker called Gary Lineker. And England kept losing [to] Germany in every important world event. After one bitter defeat Gary Lineker said, "Soccer, [football in Europe] is a game played by 22 men chasing a ball and always the Germans win." [Laughter] Now, I think what Germany gets now is the revenge of the Lineker Principle. The Eurozone, or the European Union, is a pitch that 27 countries play and always the Germans pick up the bill. At least that's how they feel. And if I were them, I would not sign a blank check again. So, you can also only ask them -- and that's not only Germany, but most of the Northern European countries -- to sign a large check to pay for this crisis, if they can make sure that this will not happen again. The other fundamental question that you have to ask is can you ask the citizens of Greece to go into a tunnel knowing that the tunnel has no exit on the other end? I wouldn't do that. And the compensation programs after the First World War has shown what consequences have for a country if they are pushed into a hopeless repayment program like it happened to Germany and to Hungary and to the losers of the First World War.

So clearly there has to be a plan which helps Greece, which admits that Greece is bankrupt, that Greece has 150 percent of debt to GDP, which is unrepayable.
And there has to be an organized way of keeping Greece within the Eurozone, but reducing its indebtedness to at least half of what it is today and then show them an exit. Even if it's 10 years from now. Even if it is a painful austerity and reform program that shows them an exit after 10 years and not leave them without hope because that is politically unmanageable.

Has there [been] anyone -- that's the first question -- who didn't win from the Eurozone? No. Everybody was a winner of that. German companies have grown. There was...overall all the European companies have won. There were, in the Forbes 500 List, there were only roughly 100 European companies 10 years ago and now there are approximately 140, 150. So, they have grown in size as a result of the Eurozone. The exports, the increased market, that is certainly a benefit. And Germany is the largest winner of the Eurozone through the reunification of Germany which was a condition of establishing the European Monetary Union and through the strengthening of its economy.

So, everybody is a winner and everybody would lose tremendously if the Eurozone is not saved. The problem is then political. And there was a former colleague of mine, the Prime Minister of Luxembourg said a couple of years ago a sentence which I think is the motto of these three years. He said, "We all know what we need to do. What we don't know is how to get re-elected
if we do what we need to do." [Laughter] That problem is not just a European problem I assume, but certainly good experts of that problem govern many countries in Europe. And without being cynical, I think we should turn it over and say this is actually not simply a principal agent problem of politicians. It's more than that. Democracies only work in a way if decisions made by politicians are supported fundamentally, basically by a majority of the society. So, when Chancellor Merkel or President Sarkozy or others are struggling to find the right solution they are struggling also to get a majority behind those decisions. It's not just a technocratic solution. You need to have something that is democratically accepted and then comes the famous [inaudible] of Woodrow Wilson who said politicians should always know where they want to sail. They can never sail directly against the winds, but they always have to catch the wind into their sails and go in the direction, sometimes with big curves. But they have to get to where they want to go. That is the big task for European politicians.

And if I would need to bet my money I would bet on the Euro to be saved, survived and strengthened. But that will be not the end of the story. Saving and keeping the Euro will only be a starting point to deal with those five problems that I've listed to you at the beginning and which will cause a lot of political instability in Europe. Saving the Euro will mean that Europe has to redesign its whole democracy on the European level because it has become obvious in this crisis that there were two actors of politics whom Europe has not met too much during the last 60 years. One is market. The other is voters. Europe was a supranational something and a club of many elite decisions. But now voters for the first time directly see what it means, in a negative way often, to be European. And markets realized that more than 50 percent of the rules in our lives in Europe are already accepted at the European level and not at the national
level. So that's where they have to go if they have a problem with our economy. That's why I think Europe has to change its operations. That will be a huge Democratic challenge, so as soon as we solve this problem of the Euro crisis we need to deal with the democratic legitimacy issue and with all [of] the competitiveness issues. But many of the measures that have already been accepted by Europe are already giant leaps. I've heard one American fund manager who said a year ago that even in this crisis can move from the impossible to the inevitable without ever stopping at probable. And that is true for Europe, but seem to be impossible is now inevitable and it has happened much faster than anybody would have ever sought. The next 10 years will be much more difficult than the previous 20 years for everyone in Europe and politicians have an immense responsibility in dealing with this crisis. They will have to think about three things when they deal with this crisis. One: they will have to make the suffering as short as possible without making unnecessary curves. Second: they have to avoid causing unnecessary pain by political bickering or promoting Populist or crazy ideas. But above all the biggest challenge and task for European politicians is to make all this sacrifice worthwhile. If they don't get that right then we will have a lot of suffering and even more suffering. And that's what we should avoid. Despite this very sober speech I'd like to conclude that I'm an optimist about Europe. I think the whole set is designed that there are some fundamentally more interested to keep it together than let it go apart. And except for a momentary lapse of reason -- and history books are all about momentary lapses of reason -- but except for that on, the basis of common interest and sober brain,
Europe should keep together, should save the Eurozone, should integrate further, should strengthen democracy, and should [be] building on its strengths, should remain to be one of the key players in the globe. But that will require change. That's my last sentence here; not mine but quoting Charles Darwin he said once, "It is not those species who survive who are the strongest, nor the most intelligent, but the ones who are most adapt to change." That's the job. Thank you very much. [Applause]

PANELIST #1: Well thank you very much. Can you all hear me? Is this mike on? OK. Thanks very much for a very enlightening and fascinating talk and what I'm going to do now is I'm going to pose a few questions to the Prime Minister. To kind of get the conversation started and after a few minutes of that I'll open it up to the audience for a general Q & A. All right?

So, one thing you talked briefly about how everyone was sort of to blame in some of the problems in the origin of the problems of the Eurozone. Everyone had played a part in it, but still we look today and in a lot of the discussion there's a lot of moralizing going on. In Germany you see a lot of talk about German voters don't want to bailout what they view as spendthrift Greeks who retire earlier and have cushier pensions and these things when the Germans have gone through austerity themselves in the past decade. On the other hand, others might point to French and German banks saying they made all these bad loans. Sort of like a drug dealer giving these loans that they should have known wouldn't have been repaid or something. So, my question to you is do you think is there a sort of moral dimension to this the way you are talking
about it? Is there really someone who's more to blame than others the way we're hearing the
discussion or is that just the wrong way to think about it? GORDON BAJNAI: Right.

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I'll go back because then I can see everyone. PANELIST #1: You can just stay there and I can and
can ask you questions from here. GORDON BAJNAI: Then I will give you this one back. Right.
There is moralizing. There's a lot of Populism and as I've said, in crisis like this -- and this is not
without precedent; the 1930s is a very close comparison -- such feelings can easily grow. And
people who are desperate to lose their jobs are much more receptive to these arguments. And
there are many political actors who seem to find their fortune in these times and sort of sit on
those waves and build themselves up and you can see many of that in Europe.

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Probably here as well, but I don't want to comment on the US now. Germany and Greece at the
first.

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phase of the crisis it has gone to the extremes. There were Greek tabloids who were writing
about the Nazi death camps in comparison to the German behavior now, which is obviously
complete nonsense and disgusting. And on the other hand, German newspapers were
publishing pictures and caricatures of Greeks who are living on others' pay. They, and the
general feeling in Germany was that, "We Germans retire at the age of 67. That's the rule. And
Greeks retire, on average, at 56 and we pay for that." Now the argument of Greeks was we
Greeks have been buying your goods, German exporters, and we took loans from you to buy those goods.

So, you provided vendor financing to us and now you complain that we are indebted. And it's true, if you look at these banks, German [and] French banks, they have huge portions of sovereign debt of Greeks. And I am not only talking about Greece here, but Portugal, Italy, Spain and others. So, there was this, I wouldn't call it moralizing, it was nationalistic and isolationistic approach that has strengthened in Europe. But it's not unique in the world. I've been to a panel discussion recently at Columbia with Harvard professor, Professor Charles Meyer, and he had a great comment. And he compared the Greek -German relationship to the US -China relationship where the saver and exporter China is living in a symbiosis with an importer and spender U.S. It is quite similar, although I would think it's a very intellectual attempt, but in fact the US economy cannot be compared to the Greek economy's potential. But still. So, there are these symbioses where both parties need each other to get on. And Germany has become the strongest economy of Europe [by] selling goods to those countries who are now in trouble. PANELIST #1: All right. A couple of follow up questions on that. So, let's say you're Angela Merkel and you know what is necessary to be done, but as you said, the question is how you get re-elected. So, my question to you is how can Angela Merkel explain to her voters what needs to be done in a way that they can possibly accept. What does she say to them? And not just her, but other leaders in Austria, The, Netherlands etc. GORDON BAJNAI: Right. It's very interesting that the party of the German Chancellor kept losing regional elections during the last two years in a row.
Almost everywhere.

Part of that is that Germany, in the middle of this crisis, has the highest growth rate and the lowest unemployment in 20 years. And the Chancellor's party is losing and losing and losing every federal election. And partly because of Fukushima and all kinds of factors, but it's a political it's not an easy solution. But there is a continuation to the quote that I've told you from the Luxembourg Prime Minister about getting re-elected. Another Prime Minister, the Prime Minister of Estonia said that you might as well you do what you need to do because you won't get re-elected anyway. Now that's not my advice to Angela Merkel. She's not asking for my advice. And I think it's easy to make jokes on her, but she is in the most difficult job probably of all politicians in the world at the moment. Save for your Andreas Papandreou. But Angela Merkel, the difference is probably Andreas Papandreou and the countries in trouble in general do not have much choice. They can go just try and survive. But Angela Merkel seemingly has plenty of choices, policy choices. [In] Which direction is she losing Germany and for which position can she assemble a majority in the country, not just in the Parliament? It has to survive the next election. It has to be supported so that Populists cannot come and turn it over a year from now.

So, it's not just about being a hero or heroine and fail heroically. It's more about do your job, stay in the job to do what you, what you have to do. So.
I think she's there, and I'm not talking about Angela Merkel, I'm talking about most political leaders in Europe. It has become popular to make jokes on Europe like we do here, but very few politicians took the effort to explain what Europe means for Europeans. That leaving Europe is practically a disaster option now for everyone. Back in '65, de Gaulle, President de Gaulle of France has withdrawn his representatives from Europe for seven months -- that was the "empty chair crisis" -- because of a debate on voting rights. Europe in '65 was much less integrated than now. Even then, France couldn't risk not being part of the show. Now it would be an utter disaster. So, the question is how you keep it together, how you avoid momentary lapse of political reason and how you do it that it can get out of this crisis stronger. PANELIST #1: All right. Let me throw one more question to you and I'll open it up to the floor. You began your talk talking about how this is a half-completed process of integration and you concluded, you talked about how you thought what we will probably see coming out of this steps toward a stronger Eurozone governance, a stronger Europe. And my question to you is, ultimately how much EU control of national fiscal policies will we need to see? Right. Are we talking about sort of, as some people say, a Euro, an EU Finance Minister or something to approve all national budgets? Of course, there are steps already in this direction in the wake of the crisis. But just...I want to you say in general terms how much control of national fiscal choices do you think we can expect to see coming out of this in the next few years? GORDON BAJNAI: Yes. Very often people like this think of Europe, the European Union as a union that is -- as it was called -- an ever-closer union that is developing to become once the United States of Europe. But if you look at the actual solutions they are quite different. Today, the central budget of the European Union is 1 percent of GDP of the European GDP, whereas the US is, even now that the revenues are very low, around 25, 20-25-ish. And they are usually historically between 25 to 35 percent of GDP probably. So, you can't really talk about the federal budget or a centralized budget and to make this jump would be impossible. Or it may become inevitable, but it seems to be even
for me, it seems to be very an impossible task in the next one or two decades certainly. So what Europe was aiming for anyway was a rules-based union where it's not... it's very simple to have one fiscal policy if you collect all the money and in one place you decide how you distribute it. Or even in the US you have the state budgets and then the federal budget. I would expect that it will be done through a coordination of policies but coordination of policies can only work if there are sanctions for those who don't meet the criteria. And the big issue has always been sanctions. I've recently published an op-ed on CNBC.com where I was suggesting that solve this crisis, solve the Greek crisis, put in the money, but then immediately introduce a rule for the future that countries who break their agreed economic pass in Europe would be excluded from the Eurozone. Because that would be the real guarantee for German taxpayers not to sign a blank check.

And the work is on that.

And actually, if you look at the positions of Wolfgang Schauble, the German Minister of Finance, he didn't say we won't have common Eurobonds where everybody is guaranteeing everyone. He said we are not there yet because we need a very strong central fiscal governance and then we can have that. So, I would think solutions will come up in the next couple of weeks. My
expectation, more than expectation, is that more than speculation is that there will be a European Monetary Fund-type European Financial Stability Fund which currently has

440 billion Euros, but it will be somehow leveraged if you would recapitalize the banks -- the systematically important 93 banks in Europe that -- will calm the market because the biggest risk, you know, everything is moving. As the banks collapse, because then everything is going down. So, first they will fix the banks. Then, I think they will introduce very tough central fiscal governance rules. Much tougher than ever before. And then I would expect that Greece will be somehow -- Greek debt will be restructured roughly to a half, but Greece will be kept within the European Union and will continue to have a very tough program. That is my expectation.

PANELIST #1: All right thanks very much. I want to open it up to the audience now for questions. Maybe you want to just take your own questions then please. GORDON BAJNAI: Yes, if at all.

Yes, please go. AUDIENCE MEMBER #1: In regard to the Greek crisis,

we've seen a loss of liquidity cap occur within the banks. And with this loss of liquidity, we've seen a flight of safety within the banks. How would you, as having gone through this during the 2008, 2009 crisis and 2010 response now when we are seeing a flight of safety within the French banks as well, by restoring maybe confidence and restoring liquidity. Would you go
through a fiscal side involvement or would you start using more ECB (sp) action? GORDON BAJNAI: Yes, I think there is a very important distinction that we need to introduce here. Also, for sovereigns as well as for banks is a liquidity crisis and the solvency problem. A liquidity crisis is usually a lack of confidence, a sudden panic, a freeze of funds which is temporary. An otherwise solvent bank or country cannot fund itself for a short period of time. In case of banks, that’s what the ECB, that’s when the ECB can step in and fund. However, if those banks have a solvency problem, a capital problem. If they are about to lose. Significant part of their capital because the sovereign debt that they have suddenly becomes, loses half or 60 percent of its original value and they have to write down those losses against capital, then it’s a solvency problem. And then you have to put in capital. That the ECB, the Central Bank cannot do. That has to be done by the state or, what is my opinion --and that is currently a big debate between major economics in Europe --I think those banks should be forcefully recapitalized at the European level. Because most of these banks are already pan-European. They have a home base from the past. For example, in my country Hungary, 80 percent of the banking assets are controlled by foreign multinational banks. So, I cannot recapitalize Austrian, Italian banks as a Hungarian government. It should be done at the European level and then also the European regulation of those banks should be strengthened. And that is true for countries who are illiquid where otherwise they have the economic potential, the potential to cut course, to grow faster, to restructure; those should be financed as a liquidity crisis in exchange for a program. Countries which are insolvent, like Greece, just hopeless to repay the 150percent of GDP debt, then those countries should be recapitalized, i.e. restructured. You know, banks can die for two reasons. They can die because of a heart attack, that is liquidity or they can die of cancer, which is bad debt, bad credit quality. And it’s a very difficult job to diagnose which sickness they have at the moment, but that’s why the joint European Regulatory Board was established in London and that’s their job to identify it. They have just come out yesterday with very strong proposals; actually, proposing higher capitalization for banks than what was expected even after the
sovereign debt is written off, which is the right thing to do to restore confidence, except if banks react on this by reducing their activity in lending.

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That can kill the economic growth. So, it has to be done in a way which is not stopping lending and I haven't seen the proposal for that. Yes, please. Over there and there and that. Yes. Everybody will come.

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AUDIENCE MEMBER #2: What I'm confused about is, Russia wants to join and get involved with the European Union. Wouldn't it be a good time to bring them in now with the money they have? You know, when business is bad, you bring a partner in. [Inaudible] GORDON BAJNAI: Well the, question is whether you would allow a hostile takeover when you are in trouble. [Laughter] What Russia has proposed -- but this was a joke,

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probably a bad joke --

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I don't think Russia wants to join the European Union. Russia has put forward different proposals in the last couple of years. President Medvedev has come up with the European security architecture which would, in his mind, replace the current NATO arrangement,
which...and I'm sure and I don't want to go into foreign policy issues now. But I'm sure we have to, Europe has to negotiate the new multipolar Europe agreement with Russia and Turkey preparing for the coming years. But that should not affect the NATO structure. It can alter, but the NATO structure should be there. That's a core value of us. Russia didn't propose to join the European Union. It proposed to extend the Eurozone into Vladivostok, into the Pacific Ocean. But Europe currently could not afford to expand the Eurozone even beyond the Danube, I think. In this current crisis. And I'm not sure Russia would want to belong there, but Russia has proposed recently -- actually the other day -- Prime Minister Putin put forward a long article proposing a Eurasian free economic zone or economic zone, which is practically integrating those countries of the former Soviet Union who kept strong economic relations with Russia, Kazakhstan and Belarus and they hope to get others in. Which in a way says that the idea of the European Union is not stupid, that it makes sense because others are trying to do something similar starting from a very early phase. And if you look at what the Asian countries are doing in Asia or what is happening in Latin America recently with the Latin American, the Latin countries. And what the Arab League was proposing before the Arab Spring; to create a pan-Arabic economic union. That means that the world is developing in the direction where larger sort of not "small is beautiful", but economies-of-scale is the current prevailing economic paradigm. And in this respect, I think Europe will be seen as an interesting pioneering attempt. These new attempts will try to avoid the same mistakes but try to copy what is good in that.

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And for that, Europe has to be successful, so one more argument. Please. AUDIENCE MEMBER #3: So, considering the current instability that is already within the
Eurozone, you have countries like Serbia that are aspiring to become part of the European Union. Obviously, there are their own political ramifications that come with that, but from a strictly economic sense, do you think that in the future it will be possible to integrate countries like Serbia to the European Union and the Eurozone and still have the Eurozone remain solvent and avoid crises such as the one that's going on now in the region? GORDON BAJNAI: I think the issue of Serbia is not that of economic...the size of Serbia is not an economic issue. Greece is 2.8 percent of the Eurozone. That's why many are laughing why this is not solved. But Serbia is significantly smaller than Greece. The issue of the Balkans countries is more about European security after 1990. The European Union saves the historic moment after the collapse of the Berlin Wall and they were often quoting Catherine the Great, Russian Czarina, who said, "I have no ways to protect my borders but to expand them." And that's what Europe did with Central and Eastern Europe. And while currently there is always a big debate in Europe about deepening or expanding and now there are many arguments for deepening the cooperation before expanding again. Relatively small economies and small population countries will keep coming into the European Union. Croatia will join. They already set a date for 2013 July. Iceland is in a developed phase of negotiations, so if they can get over the fishery problem, which is the biggest problem, then Iceland could relatively quickly join. Montenegro is seen as a country in accession already and Serbia and Macedonia are banging at the door. Serbia's just got the announcement that the report is fine, so they may get the status of being a candidate, which is an early phase of the process. So, these things will happen. The big question is more like Turkey, but that I don't see in the next decade, even if there I see tremendous merits as well as counter-arguments. But I don't see it would happen soon and I don't see Turkey's interest strengthening in that either. So, in Serbia I think it's more like, you know, there are these famous Copenhagen criteria, the three criteria which makes you available to join the European Union. One, you have to be a working democracy. Serbia has made tremendous steps in that
direction, especially under the presidency of the current President, Boris Tadic, who is a committed European and Democrat. Second, you have to be a market economy a, capitalist free-market economy. Serbia is going in in that direction and has done a lot. And the third one, and this is usually the difficult part, you have to be able to take on the *acquis communautaire*, the European Union's rules, which is one hundred-sixty thousand pages which you need to negotiate through and check that your country meets all those criteria. So that is the task for Serbia and the other countries I mentioned.

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And that will be a long and winding road. But I think Serbia,

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I'm sure Serbia will get there. And it is in the interest of Europe because these countries in the Balkans are standing in a queue to get into NATO and to get into the EU. And if you keep people for too long in the queue and the queue is not moving very often they are tempted to join another queue which seems to be moving. That could be a big loss for Europe and a big source of instability at its borders. Please. Now your turn. AUDIENCE MEMBER #4: As a single person [inaudible].
Creating jobs. And then the people would put their money in the banks and then [inaudible].

GORDON BAJNAI: Yes. No, I think that's a very valid point what you say that, if I understand correctly, that banks have -- many banks, not all but, many banks have -- misused the chances that they had and the capital that was trusted upon them. AUDIENCE MEMBER #4: Yes, I just want to say one more thing. And then if they would invest in creating work and strengthening the economy like that [inaudible]. GORDON BAJNAI: Yes, I think it's a very valid dilemma, and it's being sorted through. The issue is, what we have to ask ourselves is what is a bank ultimately? A bank is a place where, originally when it was established, people put their money in and it's those who have money they put it in and those who don't can ask and pay an interest for them. That is just the classic banking. Now we have got very far from that and that's a problem. But the banks are utilities now. If banks cannot function it's like when the electricity company or a telephone company or the railway company doesn't function anymore because all the companies are using loans from banks. Jobs are created from bank loans. Investments are made with banking loans. So, you need the banks to function. And the problem today is that despite trillions of dollars or Euros as went into these banks, the economy is still not functioning. And those loans are not being distributed. Now, I think we shouldn't mix up two things the mistakes that were committed in the banking system were not committed by the institutions, [but] by the people who run it. So, if you think that somebody is at mistake -- if somebody has made a misuse of the position he was in -- he or she should be punished at least fired. If he'd done something against the law then he should be sentenced more severely. And even if he didn't do bad things, but his bank is not functioning well, then he shouldn't get at least a premium or whatever. That's fine, but you shouldn't punish the institution because an institution is like you can't punish the
electricity at home. The big risk at the moment, if the banking system collapses because of the lack of capital or because if they have to write down, then the banking system stops existing and those savings by the small,

individuals, earners, families, employees who put their trust in the bank could be lost.

And if you have a bank run anywhere in the world, that's already the anteroom to a total collapse of the economy. So that's what you want to avoid. You want to stabilize those banks, but you don't want to give them that money to play with and you have to ask things for it. Two days ago, President Barroso the President of the European Commission, had a speech about bank recapitalization and he said no dividend, no premium to bank managers. The shares would be held by the states because they put in the money and as long as the banks restore their orderly work nobody else should get rich. AUDIENCE MEMBER #4: [inaudible] So what I think should finally [happen] is the banks should probably to try to manage their systems better. [Inaudible] And then invest into the job creation. GORDON BAJNAI: Yes. PANELIST #1: Thank you. Thank you very.
Let's take a couple more. GORDON BAJNAI: Yes. AUDIENCE MEMBER #5: I was just going to go back to this point about being careful about moralizing because it's very easy to do that vis a vis the banks. I think it's important to understand that while it's very easy to picture the bankers as ripping everyone off and guarding all the profits, we must be very careful because some of the rules imposed, not only by governments, but also by international authorities like the Basil Group (sp), have a part in this crisis. One of the rules is about capital requirements which were set a while back. Capital requirements were set so that you had to set about 6 or 7 percent of any loan for consumer and commercial loans against capital. But it set zero percent against sovereign debt, creating a vast incentive for the banks. Instead of telling the banks you have to do this. So, in some sense the origins of this problem is in its governance as well. And so, I think that's one reason why it's important that you said remember to be very careful about playing the blame games because it's a very destructive process. But it means they really have to harmonize all your rules and be very careful.

GORDON BAJNAI: Yes, I fully agree. And a sort of "the buck stops here" type of sign should be put on the desk of European government heads, especially in Germany but everybody everywhere and so whenever you start if you if you say bail out the Greeks or if you recapitalize the banks, that has to be started by the state and financed by states. There's nobody else, but less and less states can afford that. So, it's a very difficult problem. AUDIENCE MEMBER #6: So, I want to ask you one question. In terms of health, what would look to you as the optimal federal state for Europe? In a recent encounter in America we had to copy the Articles of Confederation. Versus the Europeans. You know the Articles of Confederation [inaudible] the
states before the Constitution. And that really poses the question of how integrative you want to get. To me, what seems to me is that we always say, yes, we have to integrate a

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fiscal system misses a lot of the longer-term features. And if you look at the underlying features of the Constitution, there are laws regarding bankruptcy, [inaudible], patents, all these things were designed for long-term growth as opposed to short-term fixes. GORDON BAJNAI: Right. Many of that stuff exists in Europe except we don't have a constitution. So, it's going the other way up. And it's always very easy to look back with hindsight.

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I'm not an expert on American history but I recall that the Constitution was not signed by Vermont and Rhode Island at the beginning only 9 out of 11 signed it so there were a lot of debates among those countries at the beginning. And it took another 100 years to end the civil war to sort of freely stabilize the federation. I hope we will save that 100 years and civil war to us. So, it's not that easy. Europe has that hundred sixty-thousand pages of European
contracts. Actually, it means that we have many things that are more regulated at the European level that are regulated on a federal level in the US; standards and what is the acceptable curve of the banana and what is not. [Laughter] Crazy things, which are probably more killing the economy than helping. So, the problem is not so much in codification, but the issue is -- well, it would lead us very far into fields of academia -- but how much of your sovereignty are you ready to give up. What securities you get in exchange and what economy improvements you got in exchange. And on that this is not the best moment to talk about. There are better moments in Europe and it may come in a couple of years, but not now.

Please yes. AUDIENCE MEMBER #7: Thank you so much for being here. My question was to address...you said that Europe has the largest economy. It has the greenest economy. And my question is, are these imports that you said -- you know, Europe is known for having the largest imports -- are these including, like what is the nature of these imports? Are we talking about the raw minerals, materials? Or are we talking on the tangible goods? Because are talking about the imports that are extracted from Africa? Like, places like Nigeria and Ghana? Are we talking about these raw materials? Because I think that could have a large, misrepresentation of statistics because perhaps -- and we want to look at the fiscal issues, but maybe we should address the philosophical issues of how exactly are we getting these imports. GORDON BAJNAI: Yeah. It's an important question and especially in the light of how the price of raw materials and minerals have changed recently; fundamentally rewriting the value proportions in global division of work to the favor of those African countries actually. Now European imports include everything. We buy... Europe is very poor on raw materials and energy, so we buy a lot from
Russia and African countries and elsewhere. But that includes also buying Apple computers and the top-quality TV sets from Japan or China.

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So, all kinds of stuff. And we are also the largest exporter of mostly sophisticated technical goods, but everything. Europe is a huge economy. It's not the largest. As an economy, the largest output is still the United States and the second is now I think China. Europe is the largest importer and exporter and Europe is the largest consumer in the consumer market in the world. But still it's huge.

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So, Europe is importing a large extent of those raw materials and energy stuff because it needs it. And one of the difficulties that I've mentioned at the beginning with these five critical trends -- I didn't mention that the sudden increase of China, India and other emerging economies have created such a huge demand for raw materials, food and energy products that it is making European production as well much more expensive. So, the whole global distribution of wealth is
changing with the change, with the demand that has increased in everything, with the emergence of China, India, Brazil and others. And that's an economic process that we all should look into the future. The United States Department of Energy has just, maybe three or four weeks ago, put out a forecast that in 25 years the global energy usage will increase by 53 percent.

Imagine what that would mean for energy products. Then in parallel with that after Fukushima, Japan, Germany and other countries are pulling out of nuclear energy. So that is again a major factor into the price of these materials that you asked for. Yes. Yeah. Two questions there.

AUDIENCE MEMBER #8: How did you prepare the Hungarian public for the difficult structural [reports]? GORDON BAJNÁI: It would be nice to say that I've prepared them, but [laughter]

I think life prepared them. Hungary has one major competitive advantage over and above every other country in Europe; we are most experienced in managing our own crisis. We are bound to go into crisis every 10 years. [Laughter]
This did not even start with the arrival of market economy to Hungary. The first such crisis that I remember when I was 13 years old in '81, 1981. Hungary joined the IMF as a first comico country because we had such a shortage of hard currency to pay our debt that there were the so-called, and I was a child, there were the so-called hard currency shops when those who had German marks or dollars could go in and buy Western goods. Otherwise those were not available for the public. And the National Bank had sent down every day a car to every shop to collect the cash that they got on that day to bring it to the National Bank for the day so they can pay the national debt. That's why we joined the IMF, it was in '81. And then in '95 we had another crisis. So Hungarian people are used to the fact that there is a major -- we are indebted so there is a major crisis. When we lose confidence then the forint weakens and we have to have an austerity, then things get better, then we start to take on loans again and live better and then we go beyond our means and then we get into crisis again. There are these stop-go cycles. And what is the mistake of politicians is that they, it's politicians who could stop it and politicians who can let it go and that that is the problem. Now answering your direct question; Hungary, when the crisis hit Hungary in 2008 -- only two, three weeks after Lehman Brothers collapsed here -- Hungary was seen immediately after Iceland is the next one who goes down.

And then we had, out of four million families in Hungary, we had roughly 1.7million who had foreign-currency-denominated loans. So almost half of the families and half of those foreign currency loans more than half, was mortgage loans. Not even in Europe, 94 percent of them were in Swiss francs. So, which has nothing to do with the economy of Hungary so, the best economical idea was to suggest then that let's introduce the Swiss franc as the Hungarian currency.
So, that was in 2009 when I was Minister of Economy for four months. I was sort of fresh in the job and I was not Minister of Finance, so I didn't have direct sort of job to do with this, but I got pulled into the discussions with the IMF. And by the time I became Prime Minister in 2009, April. The Hungarian forint has was roughly 30 percent, 35 percent weaker than before the crisis. Imagine what that meant for those mortgage holders -- monthly arrears. And plus, the Hungarian CDS, so the risk premium that is priced into the loans as an interest rate was 600 basis point, 6.3 percent, in addition to the normal interest rate that Hungary had to pay because of the risk. And if Hungary had to pay that, then each mortgage holder and each company had to pay it.

And so, people in Hungary understood that this is another crisis, they have seen such, and they knew that this can be a disaster because hundreds of thousands of families could lose their homes. And so, all I did when I became Prime Minister, well first of all I only took on the job in a way that I told the members of Parliament, here is a page10 things that you were not ready to vote for the last 10 years. Unless the majority of members of Parliament sign this declaration, then I don't take the job. So, I needed 193 signatures and I had 204. That is how I got it. And then I said alright then let's do it quickly because you know you don't know how long these papers last. And the ink.
And so, we did it in eight weeks and that helped to restore confidence. But the

one thing that is very important in politics which I learned as an outsider, I was never a party politician -- but as a businessman who saw crisis often -- is that managing expectations is one of the most important things. So, the first speech that I had as a Prime Minister when I was appointed as a candidate for Prime Minister to the Parliament the first speech I had was telling my country that, Ladies and gentlemen this is going to be very, very painful, but this is the only way forward." So, I think the strategy of Winston Churchill to promise blood, sweat and tears is much better than to say no it's not going to hurt, don't worry, it will be easy, we'll get over with it fast, because it's not true. You have to tell people what they can expect. And you have to deliver on that. And even if it's negative you have to deliver on that and you have to keep your promises. And one year later when we have finished governing and transfer the country that interest rate spread which was 6.3 percent at the beginning was down to 170, so 1.7 percent. So that confidence has been restored towards Hungary. But that was a tremendous pain and people were clever and wise enough to suffer that without a single demonstration in Hungary during that one year.

Yes please. MODERATOR: We have to make that the last one. AUDIENCE MEMBER #9: First of all, thank you for your time Mr. Prime Minister.
I guess the big problem I see Europe's future, even if they do actively solve... the current problem is that growth forecast for many individual states are looking pretty bleak. Italy has not grown for I think the past 10 years and the outlook doesn't look good. Same thing can be said for Greece and Spain as well. And Portugal. So, as somebody who has been in a position of power over an EU state, how would you...how can the EU implement a better growth agenda in the future? I mean, not only do they need to be in a position where they can deal with the current crisis, but also be prepare for future economic crises.

GORDON BAJNAI:

You're right. That's the big issue. Fixing the Eurozone makes a deep breath, a lot of money invested and then and a couple of new rules, but restoring competitiveness can take 10-15 years. If, and you are perfectly right in your analyses, if you look at Europe, if you take different parts of the world in 2005 and look at their GDPs as 100 -- everyone's, their own GDP, 100 in 2005 -- then in 2010 Europe was 102. The US was 105. So, you could say it's not that big a difference. But Brazil was 127, India was 145, and China was 166. In five years. So that's the problem, Europe has grown, but the others have grown like this for a much lower base.
So, Europe has to restore competitiveness. Competitiveness is not a miracle. It's a lot of common-sense things which you have to keep doing in a very dedicated and long term and systematic way. You have to reform many of the systems that you have. You have to restore the competitiveness of unit labor costs in Europe. Germany was the only country which started to reform itself without an actual crisis in 2000 with Gerhard Schroeder with the Agenda 2010, two thousand ten. [It] introduced labor market reforms. So, Germany's unit labor costs remain flat for six, seven years. During the same period of time, Greek, Italian and Portuguese unit labor costs has grown between 25 to 40 percent. So those countries with the low skilled labor in the internal European division of work, they are the low skilled labor countries, they have priced themselves out of the market and those jobs went either to China or more likely to Hungary and Poland and Romania. The near shoring. And to restore that they need to find a way to partly to bring those labor costs down and that is happening in a very tough way in Greece for example. Not having their own currency makes it more difficult. But also you need to introduce major structural reforms: education, healthcare, pension system, labor market, vocational training, innovation, and research. These are all well-known fields. The question is to do it and do it constantly and that means a major reallocation of resources from quality of life to competitiveness in a very difficult environment. So, I would think that Europe's next 10 years will be very difficult. But if Europe gets it right it has enough reserves to become a growing region again.
Thank you very much. MODERATOR: Thank you. [Applause]

So, I think you'll all join me in thanking the Prime Minister for really fascinating talk and for taking his time to come down here and visit us. Outside, we have some drinks and refreshments. We can go out. I was thinking what should we get the Prime Minister as a little memento of Rutgers and something you may not know about him is that besides being one of the leading businessmen of Hungary and Prime Minister and a leading public servant he's, also a terrific soccer player who's been a champion. So, I got you a Rutgers soccer ball. Here you are. [Applause] Thanks so much. All right. So, let's all go right outside. There's food and drinks out there.