The National Herald

International Investor and Power Broker Stelios Zavvos

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Famous economists. Nobelist Prof. Robert Mundell, Prof. Nouriel Roubini, and world renowned investors, George Soros, Steve Schwarzman, John Paulson, with Zeus Capital Managers CEO Stelios Zavvos.

NEW YORK – Greek-American Stelios Zavvos, founder of the private equity fund Zeus Capital Managers, is a well-known investor and power broker on both sides of the Atlantic. Funded by major financial institutions, sovereign wealth funds, world-famous investors and Greek shipowners, Zeus succeeded in developing residential communities and acquiring income-producing offices in Southeastern Europe – the Balkans. That fund, based in Athens, plays a major investment role in countries like Bulgaria, Romania, Serbia and Greece.

Concurrently, Mr. Zavvos founded the Harvard Business School Club of Greece, which has evolved into one of the leading economics, business, and public policy forums in Greece and the greater Southeastern European region.

As the president of the Club, he has invited many of his internationally-known friends to speak in Athens to a selected audience, present their views, and provide their advice on the Greek debt crisis. Guest speakers have included, among others, Nobel Prize winners Robert Mundell and Joseph Stiglitz, the late professor and former Italian Minister of Finance Tommaso Padoa Schioppa, Professors Jeffrey Sachs and Mark Mazower (Columbia University), Nouriel Roubini (New York University), Dani Rodrik (Harvard Kennedy School of Government), former Minister of Economy of Turkey Mr. Kemal Dervis, Dr. Daniel Gros (Director of the Center for European Policy Studies) and the renowned investor George Soros.

On a recent trip to New York TNH asked Zavvos to reflect upon the crises in the Eurozone and the current situation in Greece due to his unique perspective on these issues, enhanced by his membership to the European Council of Foreign Relations – the leading organization for European policy, and the Advisory Board of the International Crisis Group – together with Kofi Annan, Wesley Clark, and others.

Stelios Zavvos with renowned investor George Soros and Nobel Prize Economist, Prof. Joseph Stiglitz.

TNH: What are the causes of the crisis in the Eurozone area?

SZ: As of its inception, the Eurozone lacked the appropriate structure to withstand the shocks of a major economic and financial crisis. In essence, the Eurozone is based on a dangerous asymmetric design: monetary policy is conducted on a European (federal) level while fiscal policy and banking supervision under national (state) jurisdiction.

The founding fathers of the euro thought that the common currency would allow the economic convergence of economically different countries, such as Greece and Germany. To attain this goal, the EU for the last 30 years has provided billions of euro to the economically weakest countries. For example, since 1982 Greece has benefited from more than 255 billion euro in the form of EU subsidies. However, instead of convergence, the outcome of this effort was divergence: surpluses in the Northern countries like Germany and deficits in the southern ones including Greece and Portugal.

The Eurozone has no fiscal mechanisms to manage a crisis like the insolvency of one of its member states. It is highly unfortunate that while the Greek problem could have been effectively restricted a year and a half ago using limited resources, the lack of such mechanisms and appropriate decision making allowed contagion to spread to the entire Eurozone area. Now the situation requires some trillions of euro to be effectively handled.

European and other banking supervisory authorities and Basel II wrongly assumed that Government bonds are riskless and allowed banks to buy these bonds without limits. The significant exposure of these banks to Greek debt has triggered a serious banking crisis.

On the other hand, the European Central Bank (ECB) has a limited mandate focusing only on combating inflation. The ECB does not function as a lender of last resort providing unlimited liquidity to the sovereign governments and the banks in emergency situations as the US Fed does. In addition, the Eurozone lacks a common Treasury like in the US for issuing bonds and enforcing fiscal discipline.

The famous Guru of Wall Street, NYU Professor Nouriel Roubini, with Stelios Zavvos

TNH: What caused the Greek debt crisis?

SZ: The Greek economic crisis was a result of both exogenous (as previously elaborated) and endogenous factors.

For several decades Greece followed an unsustainable and flawed economic model. This was based on chronic public and private overconsumption while presenting structural gaps in competitiveness and productivity. Between 2000 and 2008, 97% of the GDP growth was driven by consumption, both public and private. Exports fell short of paying for imports.

Nonetheless, the most important cause of the Greek crisis is the clientele system developed between politicians and voters which has created an overblown and highly inefficient public sector. Approximately 23% of employment is related to the public sector versus 14% in the rest of Europe.

The public deficit was financed through continuous borrowing at very low interest rates, especially during the period that Greece enjoyed the advantages of belonging to the Eurozone. Cheap credit was a benefit that turned into a poisonous medicine.

The domination of trade unions has increased unit labor cost by 40% between 2000 and 2009. At the same time public salaries are 70% higher than those in the private sector.

In addition, tax evasion and the lack of enforcement tax collection mechanisms are aggravating the deficit problem.

As a result, Greece is currently faced with high debt (public Debt/GDP over 160%) and primary deficit instead of primary surplus (as the revenues do not suffice to pay the actual operating expenses of the state). Another significant factor for Greece's current problems is the country's dramatic lack in competitiveness.

In order to radically reform the political system, which has proven incapable of avoiding and handling the crisis, Greece has to shape an entirely different economic model based on the increase of its exports and the attraction of capital investments in the country.

TNH: Which are the important decisions of the European leaders' summit on December 8-9?

SZ: The EU summit's decisions of December 8-9 are supposed to lead to a closer fiscal and political union for the Eurozone. EU leaders wanted to impose a stronger fiscal discipline and impede the violation of rules on deficit and public indebtedness. Essentially, they tried to ensure that all nations include fiscal restrictions in the Constitutional laws following parliamentary approvals. Moreover, they attempted to increase the firewall protection for European banks in case one of the member states defaulted.

The ECB is designated as a lender of last resort for banks for a period of 36 months but, unlike the U.S. Federal Reserve, not for the sovereign states. However, financial markets remain skeptic as they consider that eventually the ECB will have to provide unlimited emergency funding to sovereign states for the euro to be saved.

Nevertheless, the last EU summit did do not adequately address the main issue of the Eurozone, the high German surpluses and how they should be balanced. Growth in the periphery countries cannot come from the austerity measures that Germany is proposing. The northern Eurozone countries with surpluses are required to provide economic stimulus in the south and generate domestic demand. In my view, Germany should stimulate its mortgage banking market.

The former Italian Finance Minister, Member of the Executive Board of the European Central Bank, and the Architect of the Euro, Tommaso Padoa-Schioppa, who advised pro bonus the Greek Government, worked closely with Stelios Zavvos.

TNH: Should Greece stay in the Eurozone or go to the New Drachma?

SZ: The basic problem the Greek economy is facing is the lack of competitiveness; the IMF in one of its recent studies estimated that prices should be reduced by 20-30%. Many Anglo-Saxon economists suggest that the country can achieve such reduction only by leaving the euro and devaluing the new currency by 30%. This way, they argue, Greece would increase its exports, while attracting investments at lower cost levels. This has been the traditional recipe for countries in South America and other regions that were faced with similarly high indebtedness and deficits.

I strongly disagree with those arguments: the new currency could suffer from continuous devaluations at unforeseen levels. This will lead to the unavoidable default of the country as the obligations that Greece will have undertaken up to the introduction of the new national currency will remain in the old currency (euro). As a result, Greece will be isolated from the international capital markets for a long period of time.

At the same time the labor unions will continue pushing for wage increases and soon the lower labor costs will increase again at non-competitive levels eliminating any devaluation benefits.

Exports in Greece, unlike Argentina, constitute a small percentage of the total country's gross revenues. Also, Greece imports basic commodities like oil at euro-dollar levels which could become prohibitively expensive. In addition, the implications of the separation from the Eurozone could result in major costs both for Greece and the rest of the countries. The introduction of a new national currency entails significant separation costs for the Greek economy, society and geopolitical position.

Greece initially must dramatically transform its current political system by eliminating the clientele relationship that has developed between voters and politicians. The country needs a new economic model for growth based on exports, while attracting capital for investments. It has to implement the necessary structural reforms, reduce public spending and the size of public administration, radically reform the tax system and its collection mechanism; this way Greece can achieve primary surplus in the next few months and stay in the Eurozone. Few years of internal devaluation have brought recession and pessimism. Staying with the euro could mean some more years of recession and deflation unless Greece takes urgently the needed actions; staying with the euro is of vital importance for Greece's survival; it is the stable path for the country to regain its productivity and competitiveness. Greece's historical, cultural, and geopolitical responsibility is to remain and succeed within the Eurozone.

TNH: Which actions does Greece need to take to stay in the Eurozone?

SZ: This is one of the most critical periods in Modern Greek history. It is the first time that the danger of Greece leaving the Eurozone has become a reality. Greece will receive this month an installment of 8 billion euro but unless it fully implements the commitments it has undertaken as per its creditors' request, it is not guaranteed that the next installments of the aid package will be also disbursed. Even though there is no mechanism to expel Greece from the Eurozone, if Greece does not receive aid from the EU and the IMF it will ultimately have to print its own currency.

To avoid this catastrophic scenario, the newly-formed National Unity government has to immediately adopt all required measures for the restructuring of the economy and achieving "Primary Surplus" by the spring of 2012. Greece, however justified the austerity measures, runs the runs the risk of social unrest and destruction of the social fabric.

This National Unity Government must stay as long as it is necessary in order to bring back economic stability. Once its mission is completed, and only then, can the country seek elections. An unproductive, disruptive electoral political campaign might have a catastrophic impact on the already ailing economy and Greece's position in the Eurozone.

Following that, Greece can aim to start generating investments and growth in specific sectors. According to a recent study, the most promising sectors are: tourism, alternative energy, food processing, agricultural production, and more efficient retail. The distressed assets and privatization will also attract investments and provide growth opportunities.

For Greece, the path to economic recovery, even while remaining in the Eurozone, will be painful and we still have many years of recession ahead of us. While there are no magic solutions for growth, I still maintain an optimistic view that this crisis can become the foundation for change, by improving and restructuring the failed political, social and economic structures that have characterized Modern Greece so far.